CENTRAL BANK OF NIGERIA

FINANCIAL STABILITY REPORT

JUNE 2011

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CBN's Organogram

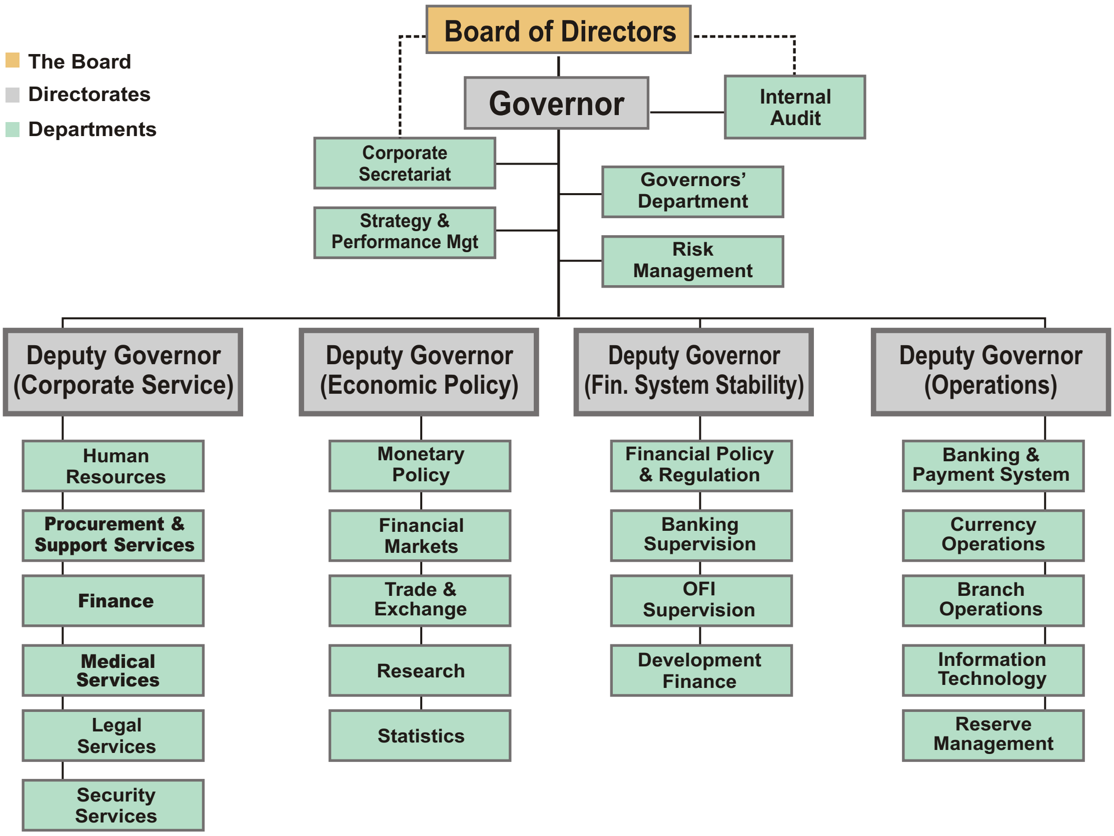

Table of Contents

List of Figures

List of Tables

List of Boxes

Appendix

List of Abbreviations and Acronyms

AACBs	-	Association of African Central Banks
AADFIs	-	Association of African Development Finance Institutions
ACGSF	-	Agricultural Credit Guarantee Scheme Fund
ACSS	-	Agricultural Credit Support Scheme
AFC	-	African Finance Corporation
AGRA	-	Alliance for a Green Revolution in Africa
AIPs	-	Approval in Principles
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
ASCE	-	Abuja Securities and Commodity Exchange
ASI	-	All Share Index (Nigerian Stock Exchange Index)
ATMs	-	Automated Teller Machines
AU	-	The African Union
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BDCs	-	Bureaux de Change
BOA	-	Bank of Agriculture
BOFIA	-	Banks and Other Financial Institutions Act 1991 (as amended)
BOI	-	Bank of Industry
BSE Sensex	-	Bombay Stock Exchange (Indian Stock Index)
CAC 40	-	Cotation Assisteé en Continu (French Stock Index)
CACS	-	Commercial Agricultural Credit Scheme
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CIBN	-	Chartered Institute of Bankers of Nigeria
CIFTS	-	CBN Interbank Fund Transfer System
CR6	-	Concentration Ratio (of the six largest banks)
CRMS	-	Credit Risk Management System
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
D-8	-	Group of Eight Developing Countries
DAX	-	DeutscherAktien Index (German Stock Index)
DFIs	-	Development Finance Institutions
DMBs	-	Deposit Money Banks
DMO	-	Debt Management Office
EGX CASE 30	-	Egyptian Stock Index (Cairo and Alexandria Stock Exchange)
EBAs	-	Eligible Bank Assets
EMV	-	Euro MasterCard Visa
FATF	-	Financial Action Task Force
FCs	-	Finance Companies
FCT	-	Federal Capital Territory
FGN	-	Federal Government of Nigeria
FMBN	-	Federal Mortgage Bank of Nigeria
FMF	-	Federal Ministry of Finance
FSIs	-	Financial Soundness Indicators
FSRCC	-	Financial Services Regulation Coordinating Committee
FTSE 100	-	Financial Times Stock Exchange Index (UK Stock Index)
GDP	-	Gross Domestic Product
GSE	-	Ghanaian Stock Exchange Index
HHI	-	Herfindahl-Hirschman Index
IFC	-	Islamic Finance Council

IFRS	-	International Financial Reporting Standards
IFSB	-	Islamic Financial Services Board
IGBC	-	Indice de la Bolsa de Valores de Columbia (Columbian Stock Index)
IILMC	-	International Islamic Liquidity Management Corporation
IMF	-	International Monetary Fund
JSE	-	Johannesburg Stock Exchange (South African Stock Index)
KYC	-	Know Your Customer
L/C	-	Letter of Credit
M1	-	Narrow Money Supply
M2	-	Broad Money Supply
MCP	-	Microfinance Certification Programme
MDAs	-	Ministries, Departments and Agencies
MENA	-	Middle East and North African countries
MFBs	-	Microfinance Banks
MFIs	-	Microfinance Institutions
MICEX	-	Moscow Inter-Bank Currency Exchange (Russian Stock Index)
ML/FT	-	Money Laundering and Financing of Terrorism
MoUs	-	Memoranda of Understanding
MPR	-	Monetary Policy Rate
NACRDB	-	Nigerian Agricultural Co-operative and Rural Development Bank
NAICOM	-	National Insurance Commission
NASB	-	Nigerian Accounting Standards Board
NDIC	-	Nigeria Deposit Insurance Corporation
NEXIM	-	Nigerian Export-Import Bank
NFIU	-	Nigeria Financial Intelligence Unit
NGAAP+	-	Nigerian Generally Accepted Accounting Principle
Nikkei 225	-	Japanese Stock Index
NIBSS	-	Nigerian Interbank Settlement System
NIRSAL	-	Nigerian Incentive-based Risk Sharing System for Agricultural Lending
NPLs	-	Non-Performing Loans
NSE	-	Nigerian Stock Exchange
NSE 20	-	Nairobi Stock Exchange (Kenyan Stock Index)
OBB	-	Open Buy Back
OFIs	-	Other Financial Institutions
PAIF	-	Power and Aviation Infrastructure Fund
PCBs	-	Private Credit Bureaux
PENCOM	-	National Pension Commission of Nigeria
PFAs	-	Pension Fund Administrators
PFCs	-	Pension Fund Custodians
PMIs	-	Primary Mortgage Institutions
POS	-	Point of Sale
PSV 2020	-	Payments System Vision 2020
ROSCAs	-	Rotating Savings and Credit Associations
RTGS	-	Real-Time Gross Settlement System
S&P	-	Standard and Poor's
SEC	-	Securities and Exchange Commission
SMEs	-	Small and Medium Enterprises
SMECGS	-	Small and Medium Enterprises Credit Guarantee Scheme
SROs	-	Self- Regulatory Organisations
TSX	-	Toronto Stock Exchange
WAMZ	-	West African Monetary Zone
WDAS	-	Wholesale Dutch Auction System
WEO	-	World Economic Outlook

Governor's Statement

The Financial Stability Report (FSR) is a bi-annual publication of the Bank that focuses on developments in the financial system and highlights measures taken to address vulnerabilities. The Bank commenced this publication in June 2010 and this edition is the third in the series. We are encouraged by stakeholder comments on previous editions as well as the growing interest in the publication.

The global economy is going through a number of challenges in the aftermath of the recent global economic and financial crises. The major concern has been the rising debt profile, especially in the Euro zone, particularly Greece, Ireland, and Portugal; as well as uncertainties in Italy and Spain. The earthquake and tsunami in Japan triggered certain events, some of which were of global concern, such as the use of nuclear energy for power generation. The crises in the Middle East and North African (MENA) countries affected oil supplies and positively impacted Nigeria's/African oil exports.

On the domestic front, the country continued to experience numerous challenges, such as poor infrastructure, inflationary pressures and unemployment. Also, the over-dependence on oil as the major foreign exchange earner and the import-dependent nature of the economy exerted significant pressure on foreign reserves. The financial system also witnessed a number of challenges, arising mainly from weak corporate governance, undercapitalisation of some banks and low credit growth to the real sector. The global financial crisis also compounded some of these challenges.

Notwithstanding the above, the smooth conduct of the April 2011 elections instilled confidence in the system, with potential for an improved business environment and increased Foreign Direct Investment (FDI). Also, the newly enacted National Sovereign Investment Authority (NSIA) Act, 2011, is expected to lead to a more efficient management of the nation's excess earnings from crude oil.

During the review period, the Bank continued monetary tightening, the implementation of risk-based and consolidated supervision, and the new banking model as well as and the International Financial Reporting Standards (IFRS). The Bank also re-introduced cross-border and on-site supervision of subsidiaries of Nigerian banks.

Thus, like the previous editions, this edition of FSR, provides readers with information on developments in the Nigerian financial system and the measures taken by the Bank with a view to enhancing market discipline, transparency and accountability. I, therefore, commend this Report to all stakeholders in the Nigerian financial system and the general public.

Sanusi Lamido Sanusi (CON)
Governor, Central Bank of Nigeria

Keynote Remarks

The global economic and financial crises, which slowed growth in the global economy in the past few years, also affected the stability of the financial markets. The global financial system has continued to witness slow recovery from the impact of the crises. The uncoordinated unwinding of the stimulus packages has further slowed the recovery. However, as the world economy gradually recovers from the effects of the crises, there is need for more proactive and effective supervisory and regulatory measures to strengthen the recovery and safeguard the soundness and stability of the financial system.

In this regard, the CBN continued to pursue initiatives and policies aimed at strengthening the financial system. In addition, it continued to provide incentives to other sectors of the economy such as agriculture, aviation and power. It is believed that the outcome of these initiatives will result in a more stable financial system and higher standards of living. As the Nigerian banking system recovers from the global economic and financial crises, the Bank's focus remains the recapitalisation of the eight rescued banks, ring-fencing all deposit money banks (DMBs) from risky non-banking business, and promoting a safe and sound financial system.

This edition of Financial Stability Report highlights the Bank's assessment of key risks in the financial system and vulnerabilities to financial stability emanating from developments in the domestic and international environment, as well as measures taken by the Bank to ensure the efficiency and soundness of the financial system. Hence, this Report is designed to provide a medium for informed discussion and understanding into the management of the risks inherent in the financial system and the economy at large.

Dr. Kingsley Chiedu Moghalu
Deputy Governor, Financial System Stability

1.0 OVERVIEW

This edition of CBN's Financial Stability Report (FSR), which covers the period of January to June 2011, reviews developments in the global and domestic economic scene and their impact on the Nigerian financial system. It discusses the various interventions by the Central Bank of Nigeria (CBN) in response to identified and potential challenges.

Section 2 presents the structure of the Nigerian financial system. The section identifies the major stakeholders and highlights the reporting relationships in the system. Section 3 contains reviews of the global and domestic macroeconomic and financial developments. This section notes that the debt crisis in the Euro Zone, the escalating crisis in the MENA countries, and rising commodity prices affected the rate of global economic recovery across regions. While growth was largely subdued in the industrial countries, the emerging and developing economies recorded a high growth performance. The depreciation of the US dollar led to currency appreciation in most countries, while the performance of global stock markets remained largely mixed, with the Nigerian Stock Market recording a marginal rise in the All-Share Index. The domestic economy grew by 7.93 per cent, driven by the non-oil sector. Tight monetary policy moderated expansion in money supply and aggregate credit and constrained inflationary pressures, especially in the second quarter. Domestic interest rates, generally, trended upwards while the Naira exchange rate was under severe pressure from heightened demand for foreign exchange.

Section 4 of the report discusses the actions taken by the DMBs in compliance with the requirements of the new banking model with respect to a new operating structure and minimum capitalization levels. Furthermore, developments encompassing the adoption of new policy frameworks for MFBs and non-interest (Islamic) banking, and the implementation of the IFRS, are also analysed. The Bank's engagement with international financial and regional institutions is also discussed here.

Section 5 presents highlights of the regulatory and supervisory activities in the Nigerian financial system. The Nigerian banking sector was relatively sound during the review period, as most of the financial soundness indicators revealed an improvement over the levels at end-December 2010, with the exception of earnings and profitability which dropped sharply. The improved capital adequacy level, which stood at 9.9 per cent, was

1.9 percentage points higher than the Basel II minimum requirement. The ratio of non-performing loans to total risk assets also improved significantly.

In order to identify and measure the vulnerabilities and resilience of the banking sector to shocks, a stress test was conducted during the period. The result revealed that credit risk was the most significant, followed by exchange rate risk. The Bank also conducted an examination/special examination of 5 discount houses, 119 microfinance banks and 101 PMIs to determine their financial health and capital adequacy. The outcomes of these exercises are also analysed in this section.

Section 6 contains discussion on the developments in the implementation of the Payments System Vision 2020 (PSV 2020) initiative whose overarching objective is to ensure a payments system that is nationally utilized and internationally recognized. Emphasis was on encouraging the usage of electronic payments channels as against cash-based transactions, in order to enhance efficiency, reliability and availability, as well as facilitate transactions at minimal cost and risk.

Section 7 presents highlights of some on-going initiatives aimed at safeguarding stability of the financial system. These include AMCON, IFRS, CRMS, PCBs and FSS 2020.

Section 8 concludes the Report and reiterates the point that promotion of a sound and stable financial system remained a core mandate of the CBN, given the critical role of financial stability in the achievement of government's macroeconomic objectives. This section recapitulates the various measures taken by the Bank during the review period pursuant to that mandate, the challenges faced, and the focus of macro-prudential activities in the second half of 2011.

2.0 STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM

2.1 Major Stakeholders

There were no significant changes in the structure of the Nigerian financial system during the reporting period. At end-June 2011, the regulatory/supervisory institutions in the financial system were the Central Bank of Nigeria, the Nigeria Deposit Insurance Corporation, the Securities and Exchange Commission, the National Insurance Commission and the National Pension Commission. The operators were 24 deposit money banks (DMBs), five (5) discount houses (DHs), 866 Microfinance Banks (MFBs), 108 finance companies (FCs), 101 primary mortgage institutions (PMIs), 31 pension fund administrators (PFAs) - including seven (7) closed PFAs, - five (5) pension fund custodians (PFCs), one (1) Stock Exchange, one (1) Securities and Commodities Exchange, 1,997 bureaux de change (BDCs), 690 securities brokerage firms, five (5) development finance institutions (DFIs), 1 public credit bureau, 3 private credit bureaux, 49 registered insurance companies and the Asset Management Corporation of Nigeria (Figure 1).

In addition to these formal institutions, a number of informal institutions continued to play a vital role in the financial system. These include NGO-MFIs, community-based organisations, such as financial cooperatives, rotating savings and credit associations (ROSCAS), and self-help groups.

The Presidency and the National Assembly exercise statutory oversight over the Federal Ministry of Finance (FMF) and the CBN, while the FMF supervises the NDIC, SEC and NAICOM.

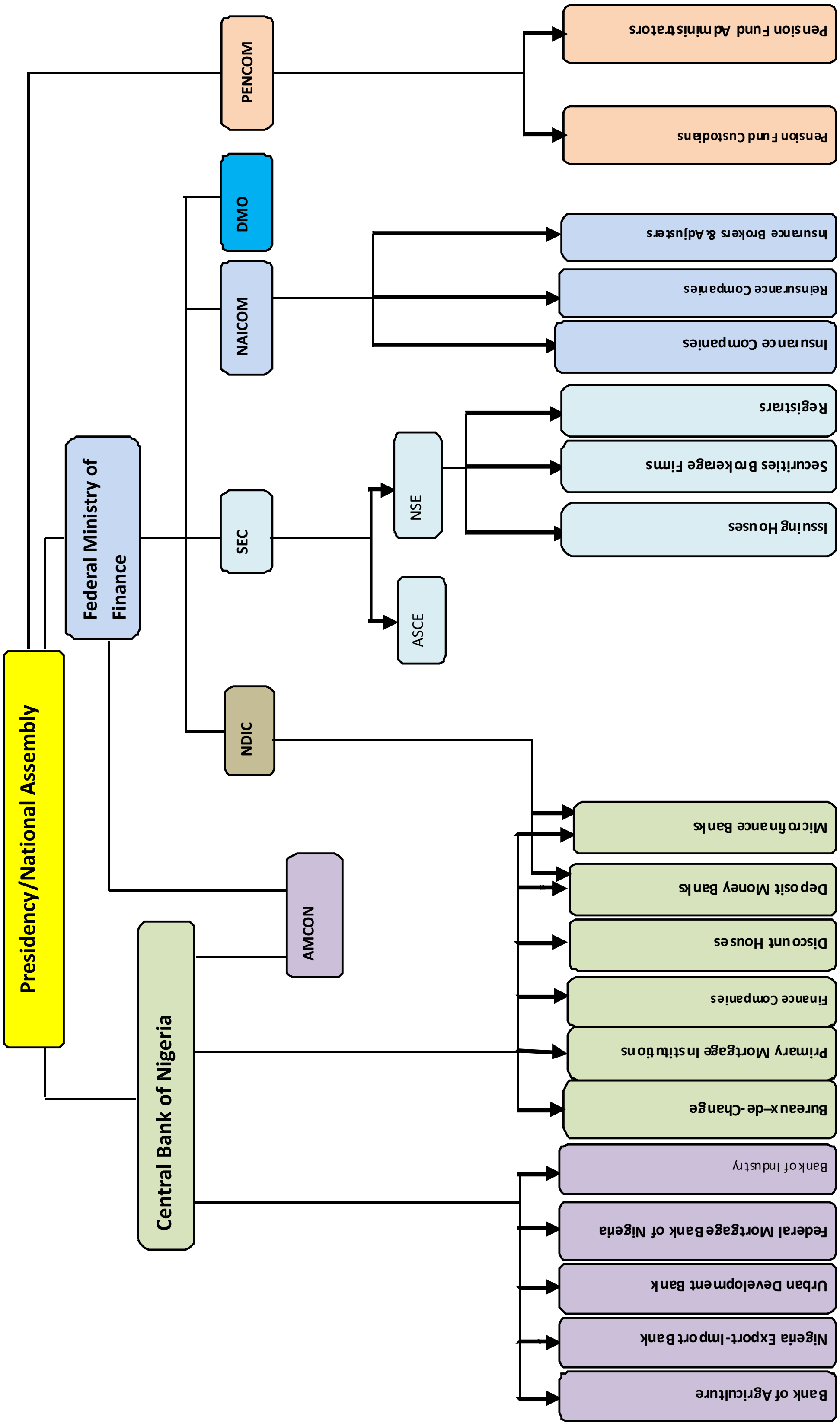

Figure 1: Structure of the Nigerian Financial System at end-June 2011

2.2 Other Stakeholders in the Nigerian Financial System

2.2.1 The Financial Services Regulation Coordinating Committee (FSRCC)

The FSRCC coordinates and harmonises regulatory activities in the Nigerian financial system. The Committee is chaired by the CBN with the FMF, the NDIC, SEC, NAICOM, and CAC as members, while PENCOM, the NSE, Abuja Securities and Commodities Exchange and the Federal Inland Revenue Service (FIRS) are observer-members.

2.2.2 Self-Regulatory Organisations (SROs)

The SROs provide training and advocacy and enforce codes of ethics and standards for members. They include: the Association of Corporate Trustees, the Association of Bureaux-de-Change Operators of Nigeria, the Association of Stock-broking Houses of Nigeria, the Association of Issuing Houses of Nigeria, the Bankers Committee, the Capital Market Solicitors Association, the Financial Markets Dealers Association, the Finance Houses Association of Nigeria, the Equipment Leasing Association of Nigeria, the Mortgage Banking Association of Nigeria, and the National Association of Microfinance Banks.

Other self-regulatory professional bodies also operate in the financial system. These include the Association of National Accountants of Nigeria (ANAN), the Chartered Institute of Bankers of Nigeria (CIBN), the Chartered Institute of Stockbrokers (CIS), and the Institute of Chartered Accountants of Nigeria (ICAN).

2.2.3 Advisory Fora

Different fora exist where regulators in the financial system formally meet with operators in the various segments of the financial system. These include the Bankers Committee, the Committee of Microfinance Banks of Nigeria, the Committee of Mortgage Institutions of Nigeria, the Clearing House Committee, the Institute of Capital Market Registrars, and the National Payments System Committee.

3.0 MACROECONOMIC AND FINANCIAL DEVELOPMENTS

3.1 Global Macroeconomic and Financial Developments

The pace of global economic recovery in the first half of 2011 slowed as downside risks grew amidst weaknesses in the US economy, heightened concerns over the sovereign debt crisis in the Euro zone and the devastating effect of the tsunami in Japanese. These developments increased the risks associated with economic recovery and kept the global financial system fragile. The IMF World Economic Outlook (WEO) Update, June 2011, indicated that the advanced economies recorded weak growth owing to low aggregate demand, while the emerging and developing economies had strong growth arising from high commodity prices and strong domestic demand. Consequently, global output grew at an annualized rate of 4.3 per cent in the first quarter of 2011, and was projected to remain at that level in June 2011.

3.1.1 Global Output

Growth in global output decelerated in the first half of 2011 to 4.3 per cent, from 4.7 per cent in the second half of 2010. In the advanced economies, output grew by 2.2 per cent, compared with the projection of 2.7 per cent. The subdued growth was attributed to supply disruptions owing to the earthquake in Japan and increases in global oil prices, which reduced household real incomes and private consumption. This trend was projected to be reversed and growth to improve to 2.5 per cent in the second half of 2011.

In the US, real GDP grew at an average of 2.3 per cent in the first half of 2011. This was projected to improve to 2.5 per cent in the second half of 2011 due to expected strong growth in household domestic demand and a declining unemployment rate as a result of the positive impact of the fiscal stimulus packages implemented in 2010.

In the emerging and developing economies, output growth averaged 6.5 per cent in the first half of 2011 and was projected to improve to 6.6 per cent in the second half of 2011, largely due to increased demand for primary commodities by the emerging economies in Asia. In Developing Asia and Latin America, and the Caribbean, growth decelerated from 9.6 and 6.1per cent in the second half of 2010 to 8.4 and 4.6 per cent, respectively, in the first half of 2011 (Table 1).

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[1]IMF, *World Economic Outlook*, January 25, 2011

Output growth in the Middle East and North African (MENA) countries dwindled during the first quarter of 2011 as economic activities were hampered by political and social unrest. However, estimates for the second quarter of 2011 indicated improvements, as some of the oil and mineral producing states in the region were expected to resume full operations. Consequently, growth in the MENA countries in the first half of 2011 was projected to average 4.0 per cent, compared with 5.5 per cent in Sub-Saharan Africa where growth continued to strengthen, with robust domestic demand and exporters benefiting from rising commodity prices.

3.1.2 Global Inflation

Global inflation accelerated in the first half of 2011 arising from the more-than-expected increases in commodity prices. According to the WEO June 2011Update, inflation in advanced economies averaged 2.6 per cent in the first half of 2011, indicating an upward change from the 1.5 per cent in the second half of 2010. Similarly, US inflation rose to a monthly average of 2.4 per cent in the first half of 2011, from 1.0 per cent during the second half of 2010.

Inflation in the emerging and developing economies declined to an estimated 6.0 per cent in June 2011, from the 6.3 per cent recorded in the second half of 2010. On the other hand, inflationary pressure in Sub-Saharan Africa persisted during the first half of 2011 owing to strong domestic demand and exchange rate misalignment. Overall, inflation is likely to remain high for the rest of 2011.

3.1.3 Global Energy Prices

World crude oil prices averaged US$116.90 per barrel in the first half of 2011, representing an increase of 46.50 per cent over the average price of US$79.80 per barrel recorded in the second half of 2010. Oil prices were estimated to remain above US$100 per barrel for the rest of 2011 in anticipation of a rebound in Japan's output and a sluggish supply response. The lingering political crisis in the MENA countries is also expected to sustain prices at that level.

Table 1: Global Output, Prices Projections for 2011 and 2012

	2009	2010	2011	2012	2011	2012	2010	2011	2012
World output[1]	**-0.6**	**5.1**	**4.3**	**4.5**	**-0.1**	**0.0**	**4.7**	**4.3**	4.4
Advanced economies	**-3.4**	**3.0**	**2.2**	**2.6**	**-0.2**	**0.0**	**2.7**	**2.3**	**2.6**
United States	-2.6	2.9	2.5	2.7	-0.3	-0.2	2.8	2.6	2.5
Euro area	-4.1	1.8	2.0	1.7	0.4	-0.1	1.2	1.8	2.0
Germany	-4.7	3.5	3.2	2.0	0.7	-0.4	3.8	2.6	2.4
France	-2.6	1.4	2.1	1.9	0.5	0.1	1.4	2.0	2.1
Italy	-6.2	1.3	1.0	1.3	-0.1	0.0	1.5	1.3	1.2
Japan	-6.3	4.0	-0.7	2.9	-2.1	0.8	2.4	0.8	2.2
United Kingdom	-4.9	1.3	1.5	2.3	-0.2	0.0	1.5	2.0	2.4
Emerging and Developing Economies[2]	**2.8**	**7.4**	**6.6**	**6.4**	**0.1**	**-0.1**	**7.5**	**6.9**	**6.6**
Developing Asia	7.2	9.6	8.4	8.4	0.0	0.0	9.2	8.4	8.6
China	9.2	10.3	9.6	9.5	0.0	0.0	9.8	9.4	9.5
India	6.8	10.4	8.2	9.5	0.0	0.0	9.7	7.7	8.0
Latin America and Carribean	-1.7	6.1	4.5	9.5	-0.1	-0.1	5.4	4.3	4.0
Brazil	-0.8	7.5	4.1	9.5	-0.4	-0.5	5.0	4.3	3.7
Mexico	-6.1	5.5	4.7	9.5	0.1	0.0	4.4	4.4	1.7
Middle East and North Africa	2.5	4.4	4.2	9.5	0.1	0.2	NA	NA	NA
Sub-Sahara Africa	2.8	5.1	5.5	9.5	0.0	0.0	NA	NA	NA
Consumer prices									
Advanced economies	0.1	1.6	2.6	1.7	0.4	0.0	1.6	2.6	1.6
Emerging and Developing Economies[3]	5.2	6.1	6.9	5.6	0.0	0.3	6.2	5.8	5.0

Source: World Economic Outlook Update June 2011

Note: Country weights used to construct aggregate growth rates for groups of countries were revised.

[1]The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

[2]The quarterly estimates and projections account for approximately 77 percent of the emerging and developing economies.

[3]The quarterly estimates and projections account for approximately 76 percent of the emerging and developing economies.

3.1.4 Policy Interest Rates

In most advanced and emerging economies, policy interest rates remained largely unchanged. In the US, the Federal Funds rate was left at 0.25 per cent, while Japan maintained its zero interest rate policy. In China, the monetary authorities favoured monetary tightening in the first quarter of 2011. In April 2011, the rate was further tightened to 6.31 per cent, from 6.06 per cent in March, and remained unchanged throughout the second quarter (Table 2). In the UK and South Africa, the Bank of

England and the Reserve Bank of South Africa retained their rates at 0.5 and 5.5 per cent, respectively, during the first half of 2011.

Although the Euro Zone was faced with a debt crisis, the primary concern of the European Central Bank (ECB) remained the maintenance of price stability. Consequently, the ECB policy rate remained unchanged at 1.0 per cent during the first quarter of 2011, but was raised to 1.25 per cent in the second quarter.

On the other hand, Nigeria, Brazil, Chile, Kenya, and India adopted a tight monetary policy stance during the period under review (Table 2).

Table 2: Monetary Policy Rates for Selected Countries, Jan 2010 - June 2011

Country	Jan. 10	Jun. 10	Dec. 10	Jan.11*	Feb 11	Mar 11	Apr11	May 11	June 11
USA	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan	0.1	0.1	0.1	0.1	0.00	0.00	0.00	0.00	0.00
Euro Area	1	1	1.0	1.0	1.0	1.0	1.25	1.25	1.25
UK	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.50	0.50
India	6	6.00	6.0	6.0	6.0	6.0	5.75	7.50	7.50
Russia	8.75	7.75	7.75	7.75	8.0	8.0	8.25	8.25	8.25
China	5.31	5.31	5.69	5.69	6.06	6.06	6.31	6.31	6.31
Brazil	8.75	10.75	10.75	10.75	11.25	11.25	11.75	12.25	12.25
Chile	0.5	1.0	3.25	3.25	3.5	3.5	4.0	5.25	5.25
Indonesia	6.5	6.5	6.5	6.5	6.75	6.75	6.75	6.75	6.75
S. Africa	7	6.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Ghana	18	15	13.5	13.5	13.5	13.5	13.5	13.0	13.0
Kenya	7	6.0	6.0	6.0	5.75	5.75	6.0	8.00	8.00
Nigeria	6	6	6.25	6.25	6.50	6.50	7.5	8.00	8.00

Source: From their Respective Central Bank Websites

3.1.5 Exchange Rates

The U.S. Dollar depreciated against most major currencies in the period under review. In North America, the Canadian Dollar and Mexican Peso appreciated against the U.S. Dollar by 0.59 and 1.51 per cent, respectively. Similarly, in South America, the Brazilian Real and Colombian Peso appreciated against the U.S. Dollar by 4.27 and 6.22 per cent, respectively, while the Argentine Peso depreciated against the U.S. Dollar by 1.42 per cent (Table 3).

In Europe, the British Pound depreciated against the U.S Dollar by 0.48 per cent, while the Euro and Russian Ruble appreciated against the U.S. Dollar by 2.96 and 2.01 per cent, respectively. In Asia, the Japanese Yen and Chinese Renminbi appreciated against the U.S. Dollar by 3.26 and 1.33 per cent, respectively, while the Indian Rupee depreciated against the U.S Dollar by 0.51 per cent.

In Africa, the Nigerian Naira and the Kenyan Shilling depreciated against the U.S. Dollar by 0.17 and 6.97 per cent, respectively, while the South African Rand, Egyptian Pound and Ghanaian Cedi appreciated against the U.S. Dollar by 0.01, 0.04 and 0.08 per cent, respectively.

Table 3: End-Period Exchange Rates of Selected Countries (Values in currency units to US$)

	Currency	2010:Q1	2010:Q2	2010:Q3	2010:Q4	2011:Q1	2011:Q2	2011Q1 and Q2 % Change	YTD % Change
AFRICA									
Nigeria	Naira	149.783	149.985	151.35	150.66	153.04	153.31	-0.17	-1.73
South Africa	Rand	7.285	7.671	6.96	6.63	6.77	6.77	0.01	-2.07
Kenya	Shilling	77.31	81.63	80.75	80.70	83.10	89.33	-6.97	-9.66
Egypt	Pound	5.5045	5.6955	5.75	5.80	5.97	5.97	0.04	-2.73
Ghana	Cedi	1.4208	1.4425	1.42	1.49	1.52	1.52	0.08	-1.97
NORTH AMERICA									
Canada	Dollar	1.0153	1.0639	1.03	1.00	0.97	0.96	0.59	3.49
Mexico	Peso	12.365	12.9409	12.59	12.34	11.89	11.71	1.51	5.35
SOUTH AMERICA									
Brazil	Real	1.7813	1.8047	1.69	1.66	1.63	1.56	4.27	6.27
Argentina	Peso	3.8788	3.9305	3.96	3.98	4.05	4.11	-1.42	-3.16
Colombia	Peso	1920.35	1900.11	1802.18	1907.70	1880.87	1770.78	6.22	7.73
EUROPE									
UK	Pound Sterling	0.6586	0.6691	0.64	0.64	0.62	0.62	-0.48	2.81
Euro Area	Euro	0.7402	0.8172	0.73	0.75	0.71	0.69	2.96	8.34
Russia	Ruble	29.4205	31.2095	30.54	30.54	28.43	27.87	2.01	9.57
ASIA									
Japan	Yen	93.47	88.43	83.53	81.12	83.19	80.56	3.26	0.70
China	Remnibi	6.8259	6.7818	6.69	6.61	6.55	6.46	1.33	2.21
India	Rupee	44.9175	46.45	44.95	44.71	44.47	44.70	-0.51	0.02

Source: Bloomberg
YTD = Year to Date

3.1.6 Stock Markets

Stock markets across the world recorded mixed performance in the first half of 2011, arising from an uneven economic recovery, persistent high levels of unemployment, the sovereign debt crisis, rising commodity prices and geopolitical tensions.

In Africa, the stock markets followed the global trend during the period under review. The Nigerian Stock Exchange (NSE) All-Share Index (ASI) and the Ghanaian GSE All-Share Index rose by 0.85 and 18.89 per cent to 24,980.20 and 1,188.91 respectively at end-June 2011, from 24,770.50 and 1,000.00, at end-December 2010, respectively. The

NSE ASI rose owing to improved liquidity, while the rise in the GSE All-Share index was largely attributable to rising commodity prices which boosted share prices of mining companies. However, the South African JSE, the Kenyan NSE 20 and the Egyptian EGX CASE 30 indices declined by 0.79, 9.34 and 24.77 per cent to 31,864.54, 70.50 and 5,373.00 at end-June 2011, from 32,118.89, 77.76 and 7,142.14, at end-December 2010, respectively. The South African JSE, declined, despite rising commodity prices, following investors' divestment as a result of speculation that South African stocks were overvalued. On the other hand, the Kenyan NSE 20 declined owing to uncertainty driven by political concerns, high inflation, rising interest rates and a depreciating Kenyan shilling, while Egypt's EGX CASE 30 decline was attributed to political crisis which eroded investor confidence.

In North America, positive economic indicators in the US and the bail-out loan to Greece by the ECB and the IMF, which temporarily restored confidence in the Euro zone, boosted the U.S index, as the S&P 500 rose by 5.01 per cent to 1,320.64 at end-June 2011, from 1,257.64 at end-December 2010. However, the Canadian S&P/TSX Composite and Mexican Bolsa indices declined by 1.06 and 5.17 per cent to 13,300.87 and 36,558.07 at end-June 2011, from 13,443.22 and 38,550.79, respectively at end-December 2010.

In South America, the equities market declined in the first half of 2011 amid speculations that a number of countries in the region would introduce measures aimed at curbing inflation, thus limiting economic growth. Consequently, the Brazilian Bovespa, the Argentine Merval and the Columbian IGBC indices declined by 9.95, 4.62 and 9.22 per cent, to 62,403.64, 3,360.64 and 14,067.73 at end-June 2011, from 69,304.81, 3,523.59 and 15,496.77, respectively at end-December 2010.

In Europe, stock market indices trended upwards in the first half of 2011, except the Russian MICEX which declined. The United Kingdom's FTSE 100, the French CAC 40 and the German M-DAX rose by 0.78, 4.66 and 6.68 per cent to 5,945.71, 3,982.21 and 7,376.24 at end-June 2011, from 5,899.94, 3,804.78 and 6,914.19, respectively at end-December 2010. The Russian MICEX declined by 4.12 per cent to 100.06 at end-June 2011, from 104.36 at end-December 2010. Rising crude oil prices were not sufficient to support growth on the MICEX as the decline in domestic growth and the credit environment dragged the index down.

All the indices in the Asian market declined. The Japanese Nikkei 225, the Chinese Shanghai A and the Indian BSE Sensex declined by 4.04, 1.64 and 8.11 per cent to 9,816.09, 2,762.08 and 18,845.87 at end-June 2011, from 10,228.92, 2,808.08 and 20,509.09, respectively at end-December 2010. The development was attributed to the fall in manufacturing output in China resulting from sluggish recovery in industrialized countries. The decline in the Japanese index, on the other hand, was attributed to the combined effects of the Tsunami and nuclear crises which impacted adversely on manufacturing output (Table 4).

Table 4: Global Stock Indices

						% Change	
Country	**Index**	**30-Jun-11**	**31-Mar-11**	**31-Dec-10**	**30-Jun-10**	**31-Dec-10 to 30-June-11**	**30-Jun-10 to 31-Dec-10**
Africa							
Nigeria	All Share Index	24,980.20	24,621.21	24,770.52	25,409.00	0.85%	-2.51%
South Africa	JSE African ASI	31,864.54	32,204.06	32,118.89	26,258.82	-0.79%	22.32%
Kenya	Nairobi NSE 20	70.50	72.56	77.76	74.40	-9.34%	4.52%
Egypt	EGX CASE 30	5,373.00	5,463.72	7,142.14	6,033.09	-24.77%	18.38%
Ghana	GSE All Share	1,188.91	1,071.50	1,000.00	1,162.78	18.89%	-14.00%
North America							
US	S&P 500	1,320.64	1,325.83	1,257.64	1,030.71	5.01%	22.02%
Canada	S&P/TSX Comp.	13,300.87	14,116.10	13,443.22	11,294.42	-1.06%	19.03%
Mexico	Bolsa	36,558.07	37,440.51	38,550.79	31,156.97	-5.17%	23.73%
South America							
Brazil	Bovespa Stock	62,403.64	68,586.70	69,304.81	60,935.90	-9.96%	13.73%
Argentina	Merval	3,360.64	3,388.03	3,523.59	2,185.01	-4.62%	61.26%
Columbia	IGBC General	14,067.73	14,469.66	15,496.77	12,449.90	-9.22%	24.47%
Europe							
UK	FTSE 100	5,945.71	5,908.76	5,899.94	4,916.87	0.78%	19.99%
France	CAC 40	3,982.21	3,989.18	3,804.78	3,442.89	4.66%	10.51%
Germany	DAX	7,376.24	7,041.31	6,914.19	5,965.52	6.68%	15.90%
Russia	MICEX	100.06	106.79	104.36	76.68	-4.12%	36.10%
Asia							
Japan	NIKKEI 225	9,816.09	9,755.10	10,228.92	9,382.64	-4.04%	9.02%
China	Shanghai SE A	2,762.08	2,928.11	2,808.08	2,398.37	-1.64%	17.08%

3.2 Domestic Macroeconomic and Financial Developments

Domestic macroeconomic performance was strong in the first half of 2011. Gross Domestic Product (GDP) growth rate was 7.3 per cent in the first half of 2011, driven largely by the non-oil sector. Money supply grew moderately during the review period. Headline year-on-year inflation moderated to 10.20 per cent at end-June 2011, from 11.80 per cent at end-December 2010. Interest rates rose consistently with the upward review of the monetary policy rate during the review period. However, the effects of the rise in interest rates were cushioned by CBN's interventions, which enhanced the flow of credit to the real sector, particularly agriculture, SMEs and infrastructure. The exchange rate was relatively stable, although it marginally depreciated in all segments of the market. At the WDAS, interbank and BDC segments, it depreciated by 2.1, 2.4 and 2.7 per cent, respectively, when compared with the levels in the first half of 2010. External reserves declined to US$31.89 billion at end-June 2011, from US$32.34 billion at end-December 2010, but remained above the international minimum benchmark of three months import cover.

3.2.1 The Real Sector

GDP growth was projected at 7.98 per cent for 2011, which is 0.13 percentage point above the actual growth rate of 7.85 per cent recorded in 2010. The growth rate in the second quarter of 2011 was estimated at 7.93 per cent, compared with 7.43 per cent in the first quarter of the year and 8.29 per cent in the fourth quarter of 2010. The outcome was driven mainly by the non-oil sector, particularly agriculture, which grew, respectively, by 5.39 and 5.79 per cent in the first and second quarters of 2011, and constituted 35.0 and 41.48 per cent, respectively of the total GDP. Oil GDP grewby 2.9 and 3.4 per cent in the first and second quarters of 2011, respectively.

Figure 2: Percentage Growth Rate of Non-Oil GDP

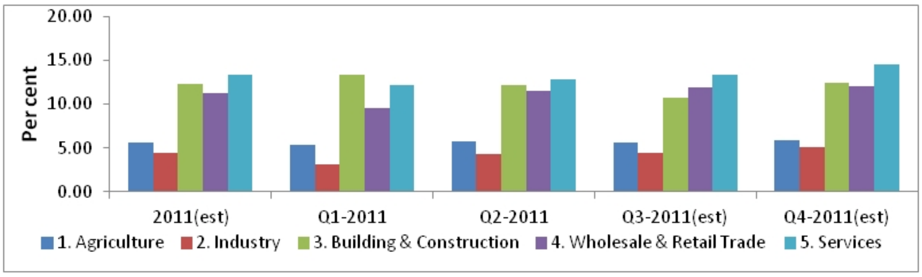
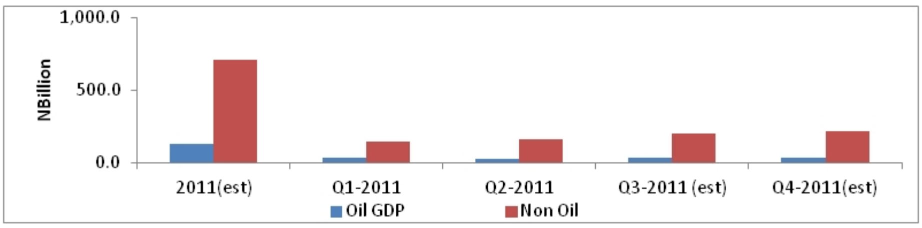


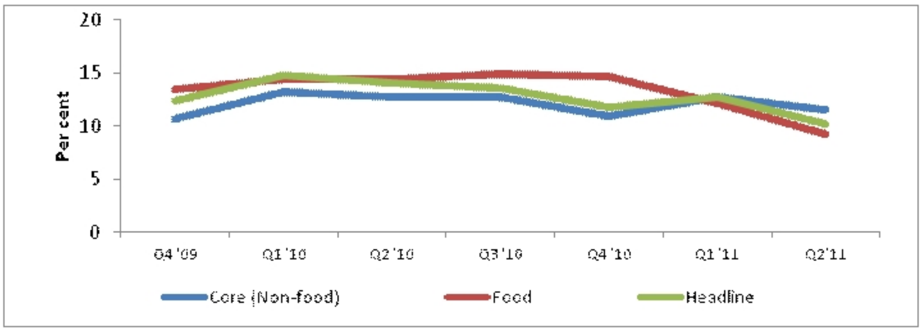
Figure 3: Contribution of Oil and Non-oil GDP to Total Output



3.2.2 Inflation

Domestic inflation moderated slightly in the first half of 2011, but remained at a double-digit level in the period. Headline inflation stood at 10.2 per cent at end-June 2011, compared with 11.8 per cent at end-December 2010, representing a 1.6 percentage points decline. The decline was due largely to the stability in the supply of petroleum products.

Figure4: Inflationary Trend (Year-on-Year)

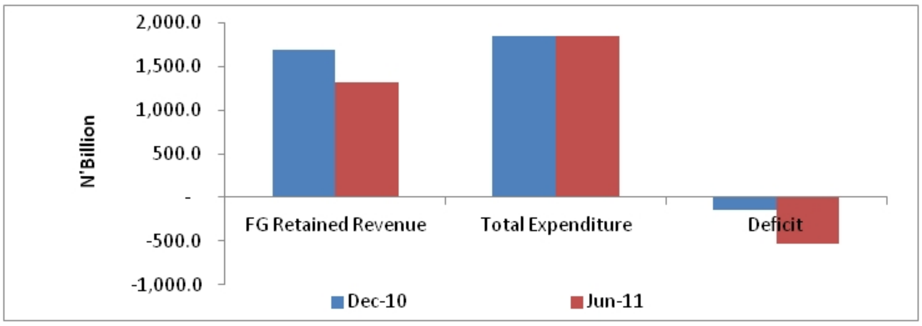


3.2.3 The Fiscal Sector

Fiscal Operations

The retained revenue and aggregate expenditure of the Federal Government stood at N1,307.33 billion and N1,997.85 billion, respectively, at end-June 2011 (Figures 6). At that level, Federal Government-retained revenue fell by 22.46 per cent below the level at end-December 2010. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of N690.52 billion at end-June 2011, compared with the actual deficit of N427.93 billion recorded in the second half of 2010.

Figure 5: Federal Government's Fiscal Operations



3.2.4 The Financial Sector

3.2.4.1 Monetary and Credit Developments

Growth in money supply was modest in the first half of 2011. Broad money supply (M2), rose by 5.7 per cent to N12,177.4 billion at end-June 2011, compared with 6.9 per cent or N11,488.7 billion at end-December 2010 and the indicative benchmark of 13.75 per cent, or N17,710.00 billion, for fiscal 2011. The development reflected the respective 13.7 and 2.3 per cent growth in other assets (net) and domestic credit (net) of the banking system.

Aggregate bank credit to the domestic economy (net) rose by 2.3 per cent to N8,908.5 billion at end-June 2011, compared with the revised 8.8 per cent growth recorded at end-June 2010. The development reflected the respective 5.1 and 1.5 per cent growth in credit to the Federal Government and the private sector.

Reserve money grew by 11.9 per cent to N2,065.1 billion at end-June 2011, from 11.6 per cent or N1,845.7 billion at end-December 2010. At that level, reserve money was 16.6 per cent higher than the indicative benchmark of N1,771.4 billion for 2011 fiscal year.

Figure6: Trends in Major Monetary Aggregates

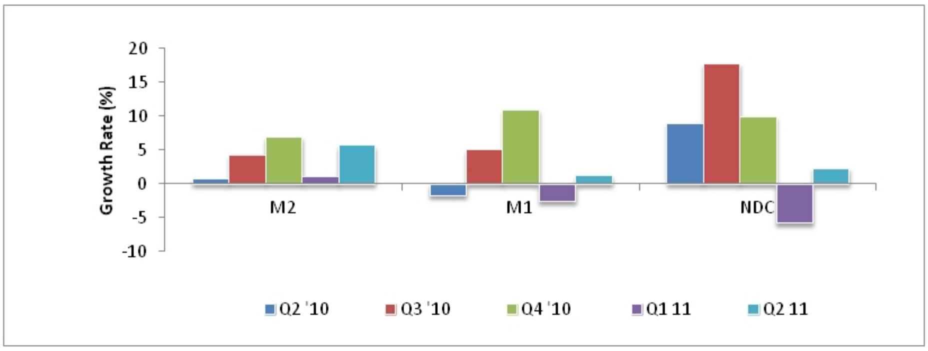
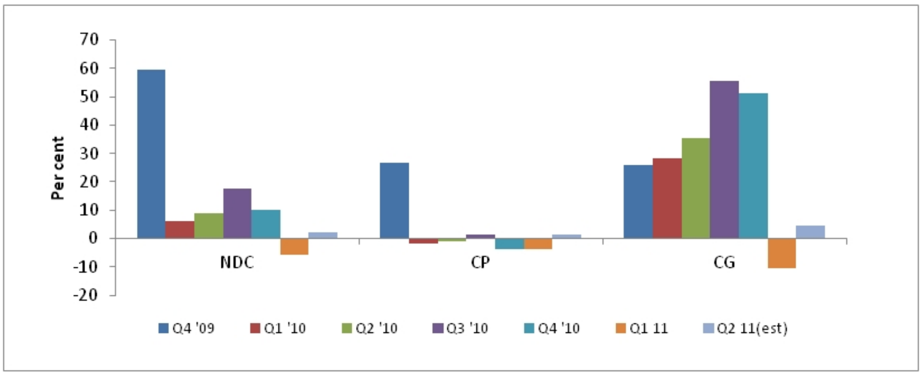


Figure 7: Trends in Net Domestic Credit



3.2.4.2 The Maturity Structure of DMBs' Loans & Advances and Deposits

Analysis of the structure of DMBs' outstanding credits at end-June 2011 indicated that short-term maturities remained dominant in the credit market. Outstanding loans and advances maturing one year and below accounted for 62.2 per cent of the total, which was a slight improvement over the 65.3 per cent at end-December 2010. The medium-term (≥1yr and < 3yrs) and long-term maturities (3yrs and above) stood at 14.6 and 23.2 per cent, respectively, compared with 12.6 and 14.1 per cent, respectively at end-June 2010, (Figure 9). Deposits of below one year constituted 96.6 per cent of the total. Further analysis showed that 73.3 per cent of the deposits had a maturity of less than 30 days, while long-term deposits of more than three (3) years constituted only 1.0 per cent at end-June 2011 (Figure 10).

Figure 3: Distribution of Deposit Money Banks (DMBs) Loans and Advances by Maturity

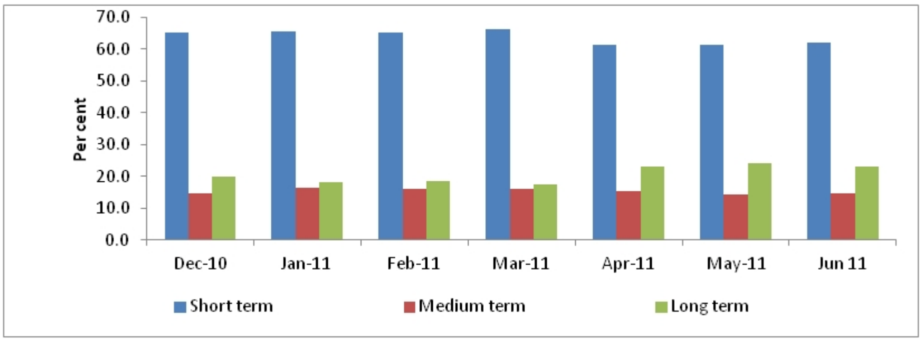
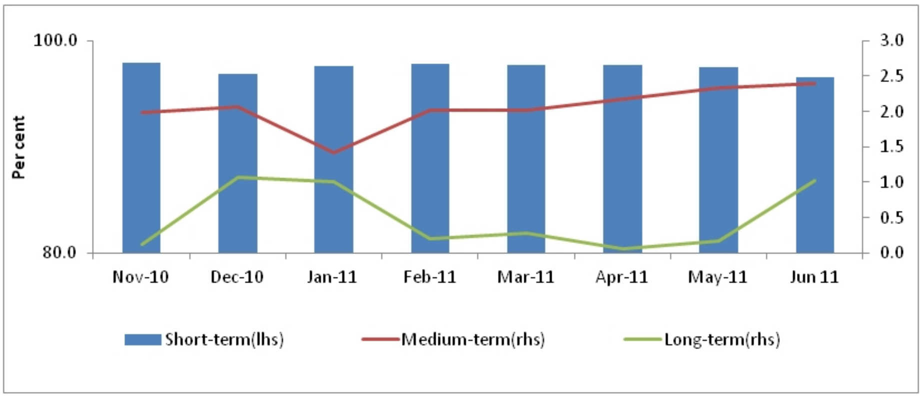


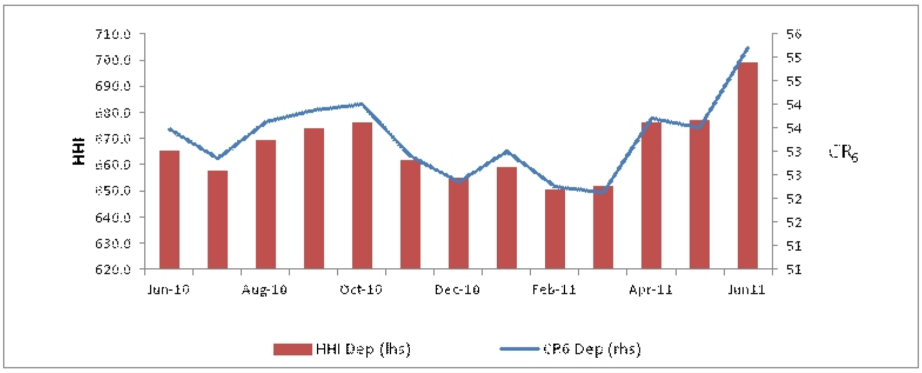
Figure 4: Distribution of DMB's Deposit Structure



3.2.4.3 The Market Structure of the Banking Industry

The oligopolistic structure of the banking industry persisted in the first half of 2011. Based on total assets and market share of total deposits, the concentration ratios of the largest six banks stood at 55.22 and 53.85 per cent, respectively, compared with 52.36 and 53.90 per cent at end-December 2010. The market share of the largest bank, with respect to assets and deposits, stood at 13.79 and 14.31 per cent, respectively, at end-June 2011. The oligopolistic structure of the banking sector was further confirmed by the respective Herfindahl-Hirschman Index (HHI) of 699.1 and 690.1 for total deposits and assets respectively (Figure 11).

Figure 10: Market Concentration Ratios of DMBs (Assets)



3.2.4.4 Interest Rates

Rates at all segments of the money market rose in tandem with the upward reviews of the MPR in March and May 2011. Consequently, the average inter-bank call rate stood at 9.21 per cent for the first half of 2011, compared with 2.52 per cent in the second half of 2010. At the Open-Buy-Back (OBB) segment, the average rate rose to 8.24 per cent at end-June 2011, from 2.29 per cent in the second half of 2010. The OBB 7- and 30-day NIBOR rates also moved in tandem with the inter-bank call rates. The symmetric corridor of +/- 200 basis points around the MPR for lending and deposit facilities was maintained during the review period.

Available data showed that the average term deposit rate rose marginally by 0.06 percentage point to 4.40 per cent in the first half of 2011. The maximum lending rate rose by 0.16 percentage point to 22.00 per cent, while the average prime lending rate declined by 0.96 percentage point to 15.77 per cent. Consequently, the spread between the average term deposit and maximum lending rates narrowed by 0.92 percentage points to 17.40 per cent in the first half of 2011, from 18.32 per cent in the second half of 2010.

Figure 11: Money Market Rates Between First Half of 2008 and First Half of 2011

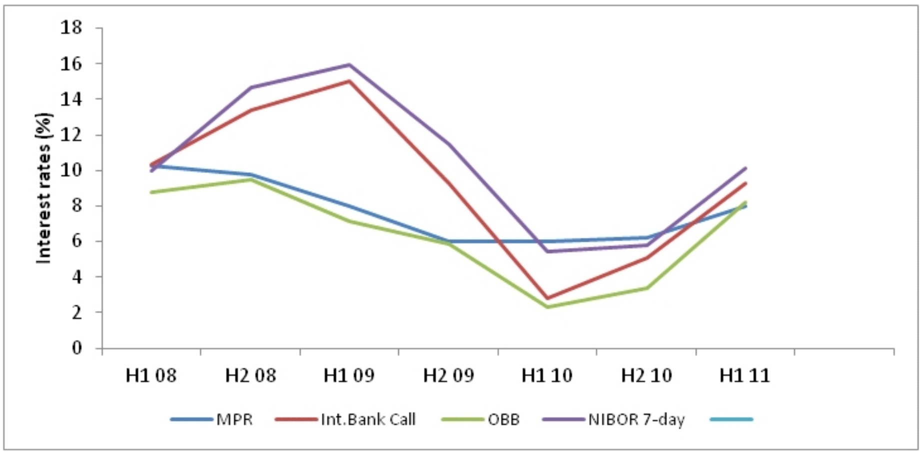
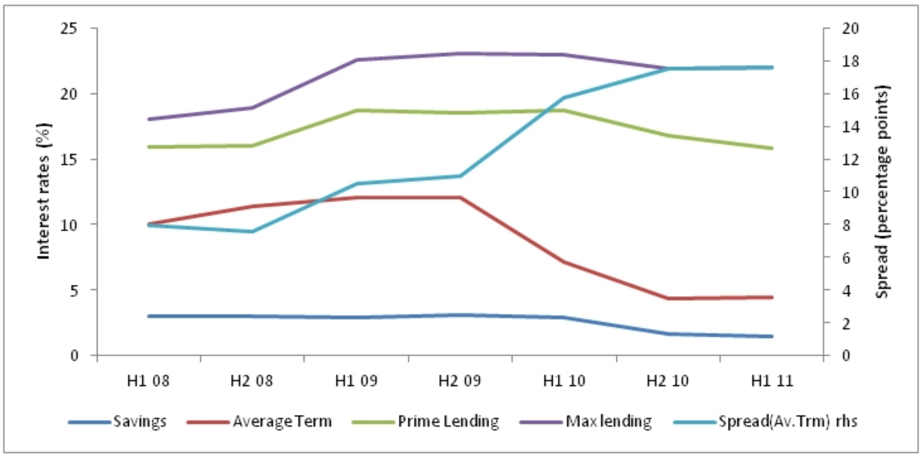


Figure 12: Lending and Deposit Rates Between First Half of 2008 and First Half of 2011



3.2.4.5 The Capital Market

3.2.4.5.1 The Nigerian Stock Market

Activities in the stock market were influenced by improved liquidity and the successful conduct of the 2011 general elections. Consequently, ASI rose by 0.85 per cent to close at 24,980.20 at end-June 2011, from 24,770.52 at end-December 2010. Market capitalization also rose by 1.01 per cent to N7.99 trillion at end-June 2011, from N7.91 trillion at end-December 2010. This was mainly attributed to capital appreciation and additional listings.

The volume and value of transactions increased by 31.75 and 1.78 per cent to 50.46 billion and N367.60 billion at end-June 2011, from 38.30 billion and N361.16 billion at end-December 2010, respectively. However, the number of deals declined by 1.97 per cent to 729,365 at end-June 2011, from 744,028 at end-December 2010 (Table 5).

Table 5: Transactions on the Nigerian Stock Exchange

Period	Volume (Billion)	Value (₦ Billion)	Market Cap. (₦ Trillion)	No. of Deals	Index
January–June 2011	50.46	367.60	7.99	729,365	24,980.20
July–December 2010	38.30	361.16	7.91	744,028	24,770.52
Percentage Change	31.75	1.78	1.01	(1.97)	0.85

Source: NSE Monthly Statistics and Annual Report 2010.

The banking sector accounted for 52.73 per cent of the volume of equities traded in the review period, compared with 58.37 per cent in the second half of 2010. The five most active sectors: banking, conglomerates, insurance, mortgage, and food/beverages and tobacco, accounted for 84.02 per cent of the volume traded during the review period, compared with 79.7 per cent in the second half of 2010 in which the banking, insurance, food/beverages and tobacco, ICT, and mortgage sectors were the major contributors. The increase was attributed to renewed investor confidence in the conglomerate sector, which was not among the top five (5) most active sectors in the second half of 2010, but ranked second in the period under review.

Table 6: NSE Sectoral Performance in the First Half of 2011

Sector	Volume	Value (₦)	Deals
Banking	26,582,601,439	228,172,228,568.19	412,233
Conglomerates	8,453,857,810	21,004,735,560.03	21,091
Insurance	4,197,201,243	3,984,906,089.61	34,799
Mortage Companies	1,883,045,540	1,244,999,913.58	4,146
Food/Beverages & Tobacco	1,236,550,802	31,416,160,143.09	60,431
Sub-Total	**42,353,256,834**	**285,823,030,274.50**	**532,700**
Others	8,057,700,502	87,832,656,306	201,063
Equity Traded	**50,410,957,336**	**373,655,686,580.32**	**733,763**

3.2.4.5.2 The Bond Market

A. Primary Market Auctions

a. Federal Government of Nigeria (FGN) Bonds

The value of FGN Bonds increased by 13.10 per cent to N3.28 trillion at end-June 2011, from N2.90 trillion at end-December 2010. It remained the dominant instrument in the bond market, constituting 60.41 per cent of the total outstanding bonds of N5.43 trillion at end-June 2011, and accounted for 62.96 per cent of Federal Government's outstanding domestic debt stock of N5.21 trillion at end-June 2011.

During the first half of 2011, a new 3-year 10.50 per cent FGN 2014 bond was issued, while existing 3- and 5-year FGN Bonds were reopened. The total amount on offer stood at N396.50 billion with public subscription of N861.11 billion and allotment of N396.50 billion (Figure 14 and Table 7).The bid rates ranged from 5.50 to 15.00 per cent for the 3-year tenor and 8.75 to 15.50 per cent for the 5-year tenor, while the average stop rates were 10.84 per cent for the 3-year tenor and 12.05 per cent for the 5-year tenor. The over-subscription was attributed to investor appetite for the short end of the yield curve, as it had higher returns with a lower risk.

Figure 13: FGN Bond Auctions

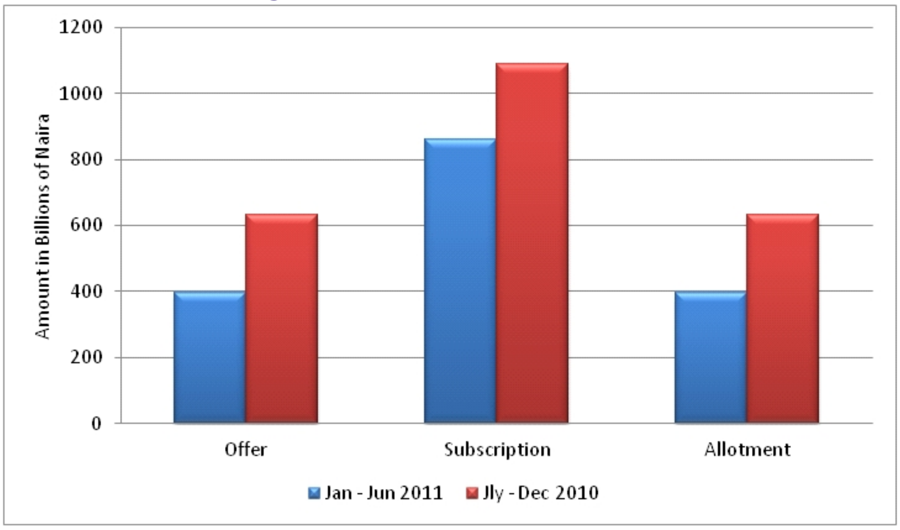


Table 7: FGN Bond Auctions, January - June 2011

BOND TRANCHES	TENOR	ISSUE (BILLION=N=)	SUBSCRIPTION(BILLION=N=)	ALLOTMENT (BILLION=N=)	RANGE OF BIDS	CUTOFF RATE	MATURITY DATE
JANUARY 19,2011							
5.5%FGN2013	3YEAR	30.00	80.95	30.00	5.50-13.00	10.4000	19/02/2013
4.00%FGN 2015	5YEAR	30.00	56.50	30.00	9.00-14.00	11.1300	23/04/2015
Sub-Total		*60.00*	*137.45*	*60.00*			
FEBRUARY 16,2011							
5.5%FGN2013	3YEAR	36.50	83.11	36.50	5.50-12.24	9.2500	19/02/2013
4.00%FGN 2015	5YEAR	30.00	56.90	30.00	8.75-12.78	11.0000	23/04/2015
Sub-Total		*66.50*	*140.01*	*66.50*			
MARCH 16,2011							
10.5%FGN2014	3YEAR (New issue)	30.00	55.89	30.00	8.00-12.25	10.5000	18/3/2014
4.00%FGN 2015	5YEAR	30.00	46.38	30.00	9.98-13.2867	12.0000	23/4/2015
Sub-Total		*60.00*	*102.27*	*60.00*			
APRIL 20,2011							
10.5%FGN2014	3YEAR	35.00	65.89	35.00	10.00-15.00	12.1490	18/03/2014
4.00%FGN 2015	5YEAR	35.00	63.33	35.00	11.75-15.00	13.1989	23/04/2015
Sub-Total		*70.00*	*129.22*	*70.00*			
MAY 18,2011							
10.5%FGN2014	3YEAR	35.00	100.21	35.00	9.20-15.00	11.0390	18/05/2014
4.00%FGN 2015	5YEAR	35.00	98.80	35.00	10.50-15.00	12.2300	23/04/2015
Sub-Total		*70.00*	*199.01*	*70.00*			
JUNE 15,2011							
10.5%FGN2014	3YEAR	35.00	62.52	35.00	9.00-15.00	11.6900	18/03/2014
4.00%FGN 2015	5YEAR	35.00	90.63	35.00	10.00-15.50	12.7500	23/04/2015
Sub-Total		*70.00*	*153.15*	*70.00*			
TOTAL		*396.50*	*861.11*	*396.50*			

a. Sub-National Bonds

The sub-national bonds segment was not active in the first half of 2011 as there was no issue during the period, compared with N50 billion issued in the second half of 2010. At end-June 2011, total sub-national bonds outstanding were N248.50 billion, representing 4.60 per cent of total bonds outstanding.

b. Corporate Bonds

There was one issue of corporate bonds during the review period, compared with three in the second half of 2010. The total value of corporate bonds offered declined by 97.06 per cent to N2.50 billion in the first half of 2011, from N85.00 billion in the second half of 2010. The total amount allotted was N1.50 billion, compared with N72.50 billion in the second half of 2010. Total outstanding corporate bonds stood at N93.17 billion, representing 1.71 per cent of the outstanding bonds of N5.43 trillion (Tables 8 and 9).

Table 8: Corporate Bonds Issued, January - June 2011

Issuer	Issue Date	Maturity Date	Offer (₦' Billion)	Allotment (₦' Billion)	Tenor (Years)
ChellaramsPlc	6-Jan-11	6-Jan-16	2.50	1.50	5

Table 9: Outstanding Corporate Bonds

ISSUER	ISSUE DATE	MATURITY DATE	STATUS	AMOUNT ON OFFER (BILLION ₦)	ISSUED (BILLION ₦)	TENOR (Yrs)
Crusader Nigeria Plc	30-Sep-08	30-Sep-13	Listed	4.00	4.00	5
Guaranty Trust Bank Plc	18-Dec-09	18-Dec-14	Listed	100.00	13.17	5
NGC Sterile Ltd	1-Apr-10	31-Dec-14	Private Placement	2.00	2.00	5
UACN Property Dev. Co. Plc	17-Aug-10	17-Aug-15		15.00	15.00	5
United Bank for Africa Plc	30-Sep-10	30-Sep-17		35.00	20.00	7
Flourmills of Nigeria Plc	9-Dec-10	9-Dec-15		35.00	37.50	5
Chellarams PLC	6-Jan-11	6-Jan-16		2.50	1.50	5
GRAND TOTAL					**93.17**	

a. Asset Management Corporation of Nigeria (AMCON) Bonds

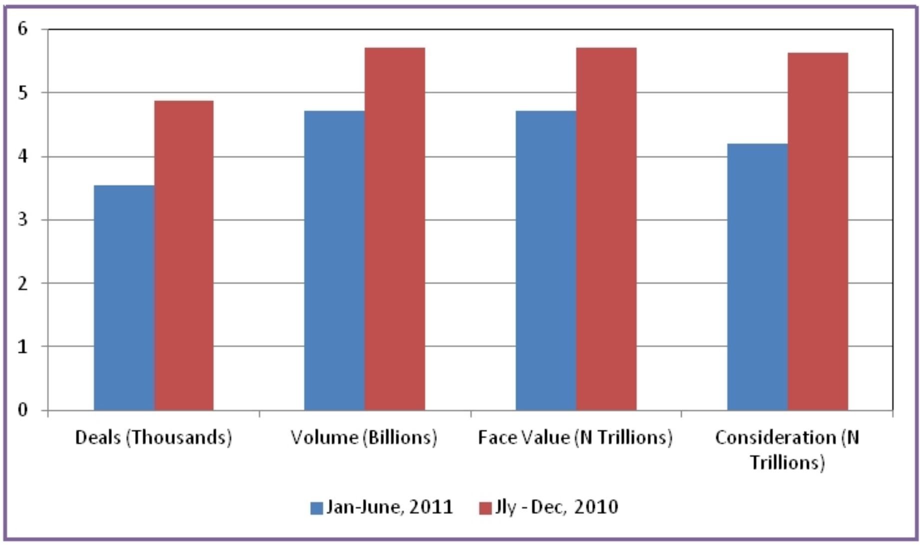
The AMCON issued two 3-year zero-coupon consideration bonds with a total face value of N534.48 billion to 22 banks in the first half of 2011, in exchange for their Eligible Bank Assets (EBAs). The total face value of bonds issued by AMCON since its inception stood at N1.81 trillion at end-June 2011. This represented 33.28 per cent of the total outstanding bonds.

A. Secondary Market Activities

a. Over-the-Counter (OTC) Trading in FGN Bonds

The OTC trading in FGN bonds declined by 25.53 per cent to N4.20 trillion in 35,374 deals in the first half of 2011, from N5.64 trillion in 48,686 deals recorded in the second half of 2010 (Figure 15). This development was attributed to the decline in bond prices, following the increase in the Monetary Policy Rate to 8.00 per cent in May 2011, compared with 6.25 per cent at end-December 2010. The decline in prices informed investor preference to hold onto the bonds to avoid capital losses on disposal.

Figure 14: OTC Trades in FGN Bonds



3.3 The External Sector

3.3.1 External Reserves Management

Nigeria's external reserve management is largely driven by the need to safeguard the international value of the Naira. To achieve this objective, the Bank continued the implementation of its Strategic Asset Allocation initiative which classifies the CBN's portion of the foreign reserves into Liquidity, Investment and Stable tranches. The other portions of the reserves are the Federation and the Federal Government. Meanwhile, the proportion of external reserves under the control of the CBN is expected to drop as the Excess Crude Account would be transferred to the Nigeria Sovereign Investment Authority (NSIA) following the enactment of the Nigeria Sovereign Investment Authority Act in April 2011.

3.3.2 Movements in External Reserves

The gross external reserves at end-June 2011 stood at US$31.89 billion, representing a decrease of US$0.45 billion, or 1.39 per cent, from the level of US$32.34 billion at end-December 2010. A breakdown of the external reserves by currency shows that 79.29 per cent were held in US Dollars, 2.59 per cent in Pounds Sterling, 9.58 per cent in Euro and 8.54 per cent in other currencies.

3.3.3 Foreign Exchange Flows

Total foreign exchange inflow during the first half of 2011 was US$19.57 billion, compared with US$14.87 billion in the second half of 2010, representing an increase of 31.61 per cent. This was due to increases in oil receipts and other government revenues. Total outflow in the review period was US$20.53 billion, made up of foreign direct payments, drawings on letters of credit and external debt service, among others. The total outflow was lower than the US$20.89 billion recorded in the second half of 2010 by 1.72 per cent. Outflows during the period were largely in respect of market interventions through the WDAS and BDC windows, which accounted for US$17.00 billion or 82.80 per cent. Others included public sector uses and debt servicing which amounted to US$3.53 billion or 17.20 per cent. The net outflow during the review period was US$0.96 billion, compared with US$6.00 billion in the second half of 2010.

3.3.4 Demand for and Supply of Foreign Exchange

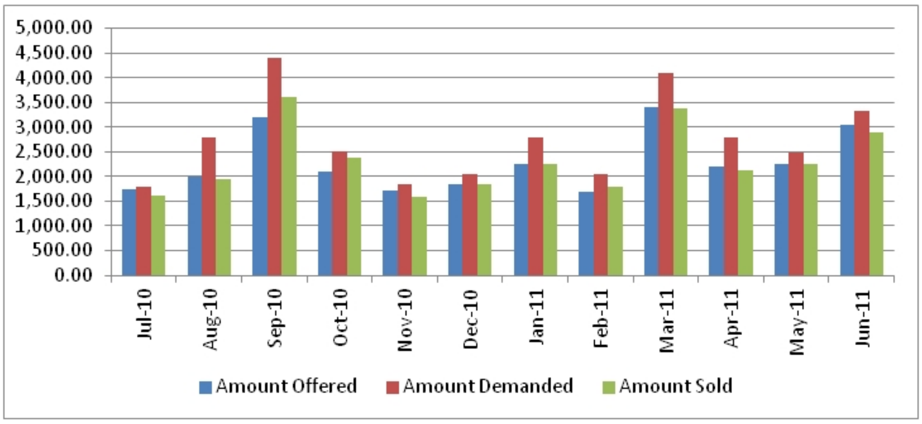
The Bank conducted 48 auctions in the first half of 2011 at the Wholesale Dutch Auction System Spot (WDAS-SPT) window. The total amount of foreign exchange demanded stood at US$17.91 billion, while amounts offered and sold were US$15.37 billion and US$14.99 billion respectively, during the period. In the second half of 2010, total demand for and sales of foreign exchange stood at US$15.37 billion and US$12.99 billion, respectively, while the amount on offer was US$13.01 billion.

The foreign exchange Wholesale Dutch Auction System Forward (WDAS-FWD) commenced on Wednesday, March 23, 2011. The WDAS-FWD was introduced with the aim of deepening the foreign exchange market in order to minimise distortions in exchange rate pricing and smoothen demand for foreign exchange. The forward auctions are conducted weekly and offered in tenors of 1-, 2- and 3-months.

The total amount demanded at the WDAS-FWD window was US$1.12 billion, while US$953.52 million was sold during the period under review. The difference, therefore, represented bids below the Bank's reserve rate. The sum of US$547.43 million matured at the WDAS-FWD segment in the first half of 2011.

In addition to the WDAS auctions, special allocations of US$1.60 billion were made to BDCs on a non-competitive basis in the first half of 2011. This represented a decrease of 42.03 per cent from the US$2.76 billion sold to BDCs in the second half of 2010. The decrease was traceable to the withdrawal of the operating licences of class 'A' BDCs in November 2010.

Figure 15: WDAS-SPT Demand and Supply in US$ Million



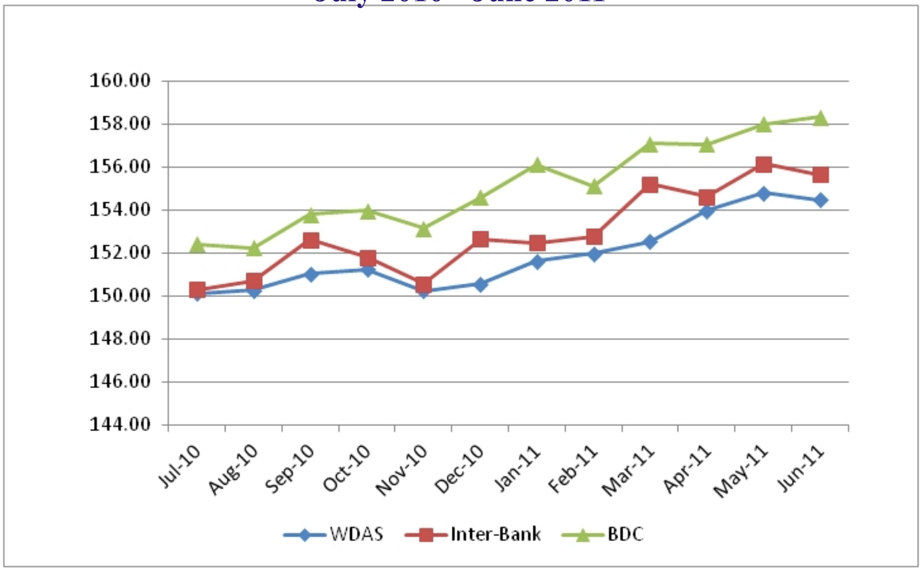
3.3.5 Exchange Rate Movements

The average exchange rate of the Naira at the WDAS-SPT window depreciated by 1.76 per cent to N153.31/US$ at end-June 2011, from N150.66/US$ in the second half of 2010. At the inter-bank segment of the market, the average exchange rate of the Naira depreciated by 2.02 per cent to close at N154.47/US$, from N151.42/US$ at end-December 2010. Similarly, the exchange rate at the BDC segment depreciated by 2.35 per cent to close at N156.95/US$, from N153.35/US$ at end-December 2010 (Figure 17).

The premium between the WDAS-SPT and BDC exchange rates increased by 33.69 per cent to N3.73 in the first half of 2011, from N2.79 in the second half of 2010. The premium between WDAS-SPT and inter-bank exchange rates also increased by 45.34

per cent to N1.25 in the first half of 2011, compared with N0.86 in the second half of 2010.

Figure 16: WDAS, Inter-Bank and BDC Rates for July 2010 - June 2011



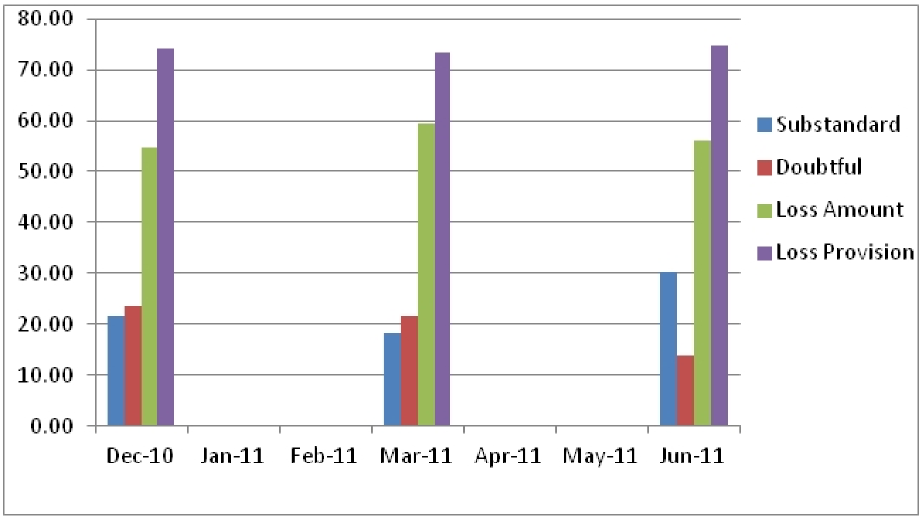
3.4 Key Risks in the Nigerian Financial System

The risks in the Nigerian financial system eased during the review period. This was due to the impact of AMCON's activities, effective regulatory interventions and gradual global economic recovery, driven by the economies of BRICS (Brazil, Russia, India, China, and South Africa) and other emerging economies. However, given the current state of the intervened banks and the prolonged recapitalisation process, the risks highlighted below continued to pose threats to the stability of the financial system.

3.4.1 Credit Risk

The banking industry risk assets quality continued its modest improvement as the non-performing loans (NPLs) to total loans ratio declined by 4.69 percentage points to 10.81 per cent at end-June 2011, from 15.5 per cent at end-December 2010. The decrease in NPLs was driven largely by the acquisition of eligible bank assets by AMCON. In absolute terms, the NPLs declined by 44.68 per cent from N1,413.63 billion at end-December 2010 to N782.06 billion at end-June 2011,. Sub-standard, doubtful and lost loans stood at N236.57 billion, N107.53 billion and N437.96 billion or 30.25, 13.75 and 56.00 per cent of total NPLs, respectively, at end-June 2011. Loan loss provisions declined from N822.59 billion at end-December 2010 to N585.15 billion at end-June 2011.

Figure 17: Selected Credit Ratios, Dec. 2010 June 2011



The total credit of N7,706.43 billion at end-December 2010 decreased to N7,231.29 billion at end-June 2011. The top 10, 20, 50 and 100 obligors accounted for 15.12, 20.92, 31.72 and 40.29 per cent, respectively, of the industry gross credit of N7,231.29 billion, indicating a high concentration.

3.4.2 Liquidity Risk

Liquidity in the banking sector improved marginally as the average liquidity ratio rose by 2.79 percentage points to 50.25 per cent at end-June 2011, from 47.46 per cent at end-December 2010. This was driven by the increase in total deposits to N9.424 trillion at end-June 2011 from N9.368 trillion at end-December 2010. Other factors included low volatility of deposits, significant reduction in the assets/liabilities mismatch, and the CBN guarantees of inter-bank market transactions and foreign credit lines to banks.

3.4.3 Market Risk

3.4.3.1 Interest Rate Risk

Banking industry trading books' sensitivity to movements in interest rates, measured by composite volatility in interest rates, increased from +0.01286 in December 2010 to +0.03286 in June 2011. This indicated that a one percentage point parallel change in interest rates would have resulted in a 3.29 per cent increase or decrease in net interest income. Thus, interest rate risk, based on sensitivity of banking trading books to interest rates volatility, increased by 200 basis points which was within tolerable limits. Similarly, interest rate risk from the re-pricing of interest-sensitive financial assets/liabilities was low, owing to the large spread between deposit and lending rates, which stood at an average of 19.22 percentage points.

3.4.3.2 Exchange Rate Risks

Exchange rates remained stable at the WDAS, interbank and BDC markets during the period under review. However, given the huge net FX position, the banking industry remained vulnerable to exchange rate volatility occasioned by persistent demand pressure.

3.4.4 Operational Risk

During the review period, 1,379 fraud and forgery cases involving a total of N6.50 billion, with a loss of N1.93 billion occurred in the banking industry, as against 2,841 cases involving a total of N11.57 billion with a loss of N8.04 billion at end-December 2010. Similarly, 116 ATM-related cases valued at N17.16 million were reported in the first half of 2011, as against 411 cases amounting to N82.17 million recorded in the second half of 2010.

3.4.5 Reputational Risk

At end-June 2011, 2,652 complaints were processed out of a total of 2,742 received by the CBN. The processed complaints resulted in the refund of N3.96 billion, US$198,118.75 and EUR10,000.00, to customers, arising from excess charges and other unethical actions. These efforts mitigated reputational risk in the industry. However, the spate of litigations against the Bank's effort at recapitalizing intervened banks exposed the financial system to increasing reputational risk.

3.5 Outlook for the Second Half of 2011

The GDP is projected to grow by 7.98 per cent in 2011, compared with 7.85 per cent in 2010, while growth rates in the third and fourth quarters of 2011 are projected to be 7.92 and 8.46 per cent, as against 7.86 and 8.36 per cent, respectively, recorded in the corresponding periods of 2010. The major drivers of the projected growth in GDP are agriculture, wholesale and retail trade, and the telecommunications sectors of the economy. However, growth prospects might be constrained by the slow economic recovery and debt concerns in the developed economies, as well as rising inflation in some emerging economies.

A tight monetary policy stance is expected to further dampen inflationary pressures, while the exchange rate should remain relatively stable. The current initiatives aimed at increasing productivity in the real sector as well as sustained reforms in other sectors are expected to yield a positive impact on GDP growth.

The introduction of a Central Securities Depository in the second half of the year, should enhance securities and collateral management, and the planned issuance of N1.33 trillion NTB would further deepen the money market. The demand for repo is projected to range from N150 billion to N230 billion in the second half of the year as market players may utilise their AMCON Bonds for accessing the CBN window.

The capital market might experience increased activity, following the projected issuance of FGN bonds (3-, 5- and 10-year tenors) worth N420.00 billion in the second half of 2011.

4.0 DEVELOPMENTS IN THE FINANCIAL SECTOR

4.1 Promoting Financial System Stability

The new banking model which was introduced in 2010 provided, among others, for the following:

- Classification of banks into Commercial, Merchant, and Specialised;
- Classification of their operations into International, National, and Regional;
- Banks' divestment from non-bank subsidiaries or the transfer of such subsidiaries to Holding Companies, latest by May 2012; and
- Banks with real estate subsidiaries to divest from such subsidiaries, latest by June 2013.

Consequently, Approvals-in-Principle (AIPs) were granted to 17 deposit money banks (DMBs) during the review period to pursue their respective compliance plans. Of the 17 DMBs, 9 opted for "International", 6 "National" and 2 "Regional" bank status. Also, 13 DMBs opted to divest from their non-bank subsidiaries, while four (4) chose the Holding Company (HoldCo) structure. The processing of the applications of the remaining 7 DMBs was deferred pending the conclusion of their recapitalisation plans. It is envisaged that the emerging structure would elicit ownership interest in the industry, with good prospects for attracting Foreign Direct Investment (FDI).

The capital requirements for banks and other financial institutions at end-June 2011 were prescribed as follows:

- Commercial bank:
  - o International - N50 billion
  - o National - N25 billion
  - o Regional - N10 billion
- Merchant bank - N15 billion
- Non-interest bank:
  - o National - N10 billion
  - o Regional - N5 billion
- Primary Mortgage Institution - N5 billion
- Microfinance bank:
  - o National - N2 billion
  - o State - N100 million
  - o Unit - N20 million

During the review period, the CBN sustained its support for the recapitalization drive of the eight banks in which it had intervened in order to contain systemic distress. Following the delay in the recapitalization process arising from litigations instituted by some shareholders, the deadline was extended to September 30, 2011, from June 30, 2011. It was expected that the litigations would have been resolved before the deadline to enable the affected banks conclude their recapitalization programmes.

Meanwhile, AMCON expressed its readiness to bail out the affected banks, through acquisition, while it continued to impact positively on the financial system by acquiring eligible bank assets (EBAs) to enhance liquidity and deepen the capital market.

4.2 The Revised Microfinance Policy, Regulatory and Supervisory Framework

The Revised Microfinance Policy, Regulatory and Supervisory Framework was approved in April, 2011. The revision was informed by the challenges encountered in the implementation of the 2005 Microfinance Framework.

The new policy regime categorised MFBs and prescribed their minimum capital requirements as follows:

- Unit MFBs:
  - Minimum paid-up capital of N20 million,
  - Authorized to operate in one location only;
- State MFBs:
  - Minimum paid-up capital of N100 million,
  - To operate within a State or the Federal Capital Territory (FCT); and
- National MFBs:
  - Minimum paid-up capital of N2 billion, and
  - To operate in more than one State, including the FCT.

The new policy recognised the need for the establishment of a Microfinance Development Fund to provide for the wholesale funding of MFBs/MFIs. Furthermore, the Fund will support the growth of the subsector by providing a refinancing/guarantee facility, capacity building, financial education, and other promotional activities. It would be financed by government and facilities from international development finance institutions.

The policy also provides for the extension of the Interest Drawback Programme (IDP) to

MFB clients in agriculture-related businesses. In addition, subsidized training/capacity building programmes would be made available to staff of MFBs.

4.3 Institutional Capacity Building

In line with its commitment to entrench a sound financial system, the Bank continued to build capacity through targeted training of staff in the following areas:

- Sensitisation training on IFRS and its implementation;
- Training of supervisors from the Bank and the NDIC on the risk-based supervisory methodology;
- Pilot training on the utilization of Financial Institutions' Application Processing System (FIAPS);
- Microfinance training programme for supervisors from the Bank and the NDIC, co-sponsored by the German Technical Corporation (GTZ);
- Initiation of the Microfinance Certification Examination (MFCE) by the Bank in collaboration with the Chartered Institute of Bankers of Nigeria (CIBN). A total of 319 candidates completed the certification examination in the period; and
- Training of staff on the financial markets and Non-interest (Islamic) Banking.

4.4 International Economic Relations and Cooperation

4.4.1 The WAMZ Committee of Experts Deliberated on the Report of Financial Sector Assessment and Development

The meeting of the West African Monetary Zone Experts Committee held in Accra, Ghana, from May 25 to 27, 2011 discussed the results of studies on:

- A Framework for the Harmonizing of Foreign Exchange Markets and the Pooling of Reserves in the WACB;
- Financial Sector Assessment and Development of an Appropriate Architecture in the WAMZ: Design of the ECO Unit of Account; and
- Impact of Electoral Cycles on Macroeconomic Convergence and the Twin Deficits Hypothesis in the WAMZ.

4.4.2 AfDB's Cooperation with Nigeria for the Development of SMEs

The Board of Directors of the African Development Bank (AfDB) Group, on May 26, 2011, approved two sovereign-guaranteed programmes, totaling US$200 million to the Nigerian Export-Import Bank (NEXIM) for financing export-oriented Small and Medium-sized Enterprises (SMEs), and US$500 million to the Bank of Industry (BOI) for financing domestic SMEs in Nigeria. The funds were to be channelled through

NEXIM and the BOI by way of multi-tranche Lines of Credit. A portion of the proceeds of the programmes was to be used to pay for Technical Assistance and capacity building in NEXIM, BOI, and the SMEs.

The NEXIM programme was designed to mobilize significant financial resources for Nigeria's export-oriented SMEs operating in various sectors of the economy and contributing to economic development through increased employment opportunities, foreign exchange earnings and regional trade integration. NEXIM envisages significant economic outcomes through this programme, including creating about 55,000 new jobs for its SME clients, US$ 1.6 billion in new foreign exchange inflows, an estimated 7.0 per cent increase in non-oil exports, and a 10.0 per cent increase in the country's share of ECOWAS exports.

The funds for the BOI were to be deployed towards systematic poverty reduction; employment generation; and wealth creation through entrepreneurial, social and economic development. The programme was to cover for loans to SMEs and financing of capital projects in the form of cluster and infrastructure development.

The associated Technical Assistance packages were designed to strengthen capacity at NEXIM, BOI and the SMEs. In summary, the programmes were expected to generate significant additional lending to export-oriented SMEs at a time when lending by commercial banks to these schemes was grossly inadequate.

4.4.3 Cooperation with other African Central Banks

The Association of African Central Banks (AACB) held its 2011 Seminar on, "Financing Development in Africa: What Role for Central Banks?" at the National Bank of Rwanda, Kigali, from 30th May to 1st June 2011, in which the central bankers defined a role for central banks in financing development in Africa. Nigeria was one of the five (5) African central banks that shared their experiences with participants at the Seminar. The objective of the seminar was to identify alternative sources of financing development in Africa and to further strengthen AACBs goal of promoting the exchange of ideas and experiences on monetary, financial and banking matters.

At the end of the Seminar, participants agreed that central banks had a key role to play in financing development. A central bank's role could be in the form of direct intervention to address a specific development issue and/or indirectly, given that development is largely a long-term phenomenon. A key recommendation of the Seminar was that African central banks revisit their laws to include financing development especially where financing development had not been explicitly provided for in existing legislation. Members expressed their desire to leverage on the experiences of Nigeria, The Gambia and Egypt in their efforts to finance development in their respective countries. The recommendations of the Seminar were to be submitted to the Assembly of Governors of the AACB at their next meeting later in the year.

4.5 Access to Finance

4.5.1 The Agricultural Credit Guarantee Scheme Fund (ACGSF)

A total of 11,410 loans, valued at N2.19 billion were guaranteed in the first half of 2011, bringing the total loans guaranteed under the Scheme since its inception in 1978 to 709,610, valued at N44.34 billion.

Under the Interest Drawback Programme (IDP), 7,430 claims valued at N68.93 million were settled during the review period. This reflected a decline of 41.53 and 42.77 per cent in volume and value, respectively, when compared with 12,552 claims valued at N120.43 million settled in the second half of 2010. The cumulative IDP claims settled since its inception to June 30, 2011 were 127,902, valued at N720.64 million.

4.5.2 The Agricultural Credit Support Scheme (ACSS)

At end-June 2011, total disbursements under the Scheme remained unchanged at N19.43 billion to 103 agricultural projects as was recorded at end-December 2010. The total amount paid by the Bank as interest rebate since the inception of the Scheme was N844.28 million.

4.5.3 The Commercial Agricultural Credit Scheme (CACS)

The sum of N34.68 billion was disbursed to 45 projects during the period under review, compared with N38.59 billion disbursed to 44 projects in the second half of 2010. This reflected a decline of 40.5 and 23.7 percent in value and volume, respectively. A total of N131.5 billion had been disbursed to 14 DMBs in respect of 148 projects at end June 2011.

4.5.4 The Refinancing/Restructuring Small and Medium Enterprises Manufacturing Fund

The sum of N199.67 billion, out of the N200 billion earmarked for the Scheme, had been released to the Bank of Industry (BOI) for disbursement to 539 projects by June 2011.

4.5.5 The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

Two (2) projects valued at N120 million were guaranteed under the Scheme during the review period, bringing the total amount guaranteed at end-June 2011 to N227.5 million for 4 projects.

4.5.6 The Power and Aviation Intervention Fund (PAIF)

At end-June 2011, N41.9 billion had been disbursed for eight (8) airline projects out of the N300 billion earmarked for the Scheme. No disbursements had yet been made with respect to the power sector.

4.5.7 The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)

The Bank commenced the implementation of NIRSAL, aimed at encouraging banks to lend to the agricultural and agricultural finance value chain by offering them incentives and technical assistance.

4.5.8 Microfinance Banking Activities

Provisional data indicated that total assets of MFBs increased to N187.17 billion at end-June 2011 from the revised figure of N170.34 billion at end-December 2010, representing a growth of 9.88 per cent. Paid-up share capital and shareholders' funds increased by 7.22 and 7.77 per cent to N44.54 billion and N47.42 billion respectively at end-June 2011, from N41.54 billion and a revised figure of N44.00 billion respectively at end-December 2010. The deposit liabilities increased by 12.31 per cent to N85.06 billion in June, 2011, from the revised figure of N75.74 billion in December 2010. The net loans and advances also increased by 23.81 per cent to N65.46 billion at end-June 2011, compared with the revised figure of N52.87 billion at end-December 2010.

4.5.9 Primary Mortgage Institutions' Activities

Provisional data showed that the total assets increased marginally to N360.02 billion at end-June 2011, from N358.81 billion at end-December 2010, representing a growth of 0.34 per cent. Net loans and advances increased by 1.63 per cent to N135.05 billion at end-June 2011, from N132.88 billion at end-December 2010. The paid-up share capital and shareholders' funds also increased by 2.87 and 6.77 per cent to N64.18 billion and N89.21 billion, from N62.39 billion and N83.55 billion, respectively. However, deposit liabilities decreased by 4.90 per cent to N177.79 billion at end-June 2011, from N186.95 billion at end-December2010.

4.6 Non-Interest Banking

The CBN released the Framework and Guidelines for the Regulation and Supervision of Non-Interest (Islamic) Banking in Nigeria. Subsequently, the Bank granted Approvals-In-Principle (AIPs) to one applicant for a full-fledged non-interest (Islamic) bank and a window to a DMB to offer non-interest (Islamic) banking products. The AIPs require the institutions to meet the prescribed conditions for the granting of a banking licence within six (6) months.

4.7 Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

In continuation of the Bank's efforts at combating money laundering and financing of terrorism, the following activities were undertaken during the period under review:

- Verification of banks' compliance with the Know-Your-Customer (KYC) requirement;
- Preparation of a draft AML/CFT Risk-Based Examination and Regulation Manuals for financial institutions;
- Review of the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA)'s Country Report on Nigeria for the year 2010; and
- Establishment of an Enforcement Unit responsible for monitoring compliance.

The Anti-Terrorism Bill (ATB) was passed into law in the first half of 2011, while the Money Laundering Prohibition Act (MLPA) was amended during the period. The Acts criminalised terrorist financing and addressed issues of freezing, seizure and confiscation of both laundered money and terrorist funds.

5.0 REGULATORY AND SUPERVISORY ACTIVITIES

5.1 Macro-Prudential Supervision

5.1.1 Financial Soundness Indicators (FSIs)

The Nigerian banking sector remained relatively sound as financial soundness indicators revealed a sustained improvement since January 2010 (Table 10).

5.1.1.1 Capital Adequacy

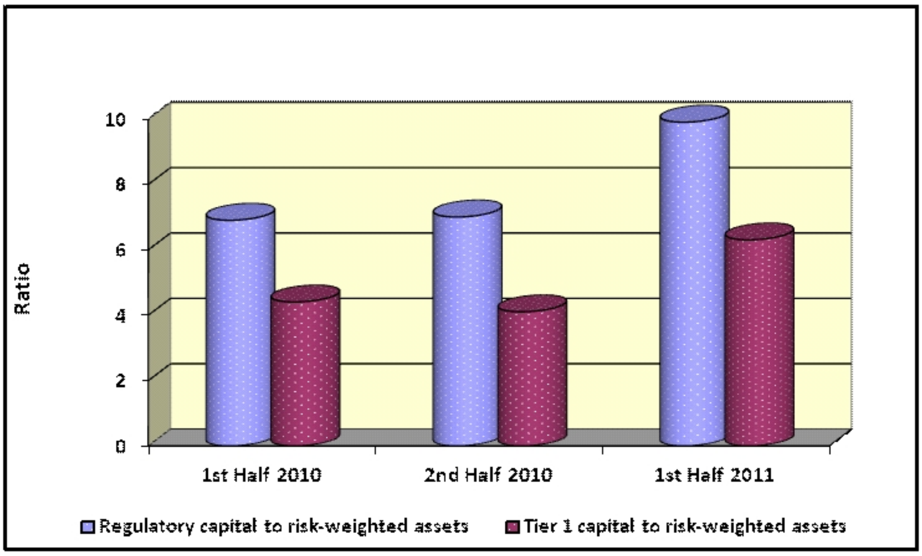
The ratio of regulatory capital to risk weighted assets was 9.9 per cent at end-June 2011, reflecting an increase of 2.9 percentage points above the level at end-December 2010 and 1.9 percentage points higher than the Basel II minimum requirement of 8.0 per cent. However, the end-June 2011 level was slightly lower than the country's benchmark of 10.0 per cent. The ratio of tier 1 capital to risk weighted assets of 6.3 per cent at end-June 2011 was 2.2 percentage points higher than the 4.1 per cent achieved at end-December 2010.

Table 10: Selected Financial Soundness Indicators in the Nigerian Banking Sector

S/N		2010 (Revised)		2011 (Provisional)
		(1)	(2)	(3)
1	**Capital Adequacy**			
	Regulatory capital to risk-weighted assets	6.9	7.0	9.9
	Tier 1 capital to risk-weighted assets	4.4	4.1	6.3
2	**Asset Quality**			
	NPLs to total loans	38.3	20.1	11.6
	NPLs net provision to capital	147.1	64.2	34.7
3	**Sectoral Distribution of Loans to Total Credits**			
	Deposit takers	0.1	0.1	0.0
	Other financial corporation	2.9	2.8	2.0
	Other domestic sectors	93.4	92.2	92.2
	Government	3.6	4.9	5.8
4	**Earnings/Profitability**			
	Return on equity (ROE)	11.8	65.4	4.5
	Return on assets (ROA)	0.4	2.1	0.2
	Interest margin to gross income	50.6	46.8	53.8
	Non-interest expenses to gross income	60.9	33.8	71.3
	Personnel expenses to non-interest expenses	40.8	40.8	53.8
	Foreign exchange trading gains (losses) to gross income	2.1	0.7	3.2
5	**Liquidity**			
	Liquid assets (core) to total assets	17.7	18.0	23.3
	Liquid assets (core) to short-term liabilities	19.4	19.8	25.7

The FSIs are computed based on IMF Guidelines

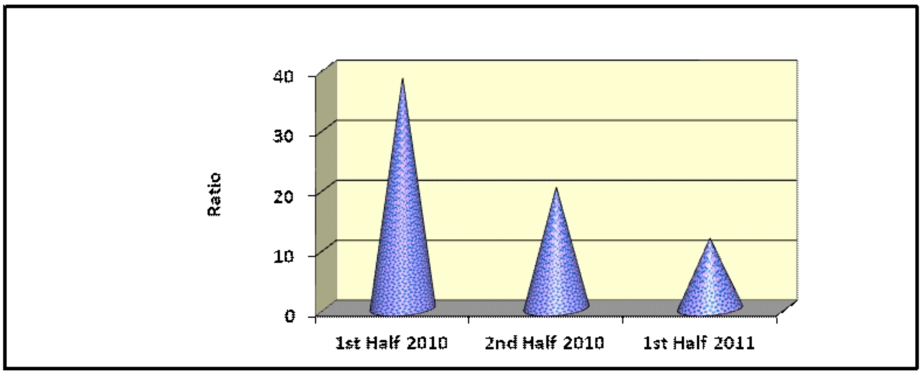
Figure 18: Banking Sector Capital Adequacy Ratios, 2010 - 2011



5.1.1.2 Asset Quality

The quality of risk assets in the sector improved in the second half of 2011 as revealed by the ratio of non-performing loans to total loans, which reduced to 11.6 per cent at end-June 2011, from 20.1 per cent at end-December 2010. Also, the ratio of non-performing loans net of provisions to capital declined to 34.7 per cent at end-June 2011, from 64.2 per cent at end-December 2010. The improvement was mainly attributed to the purchase of EBAs by AMCON and improved risk management practices by banks.

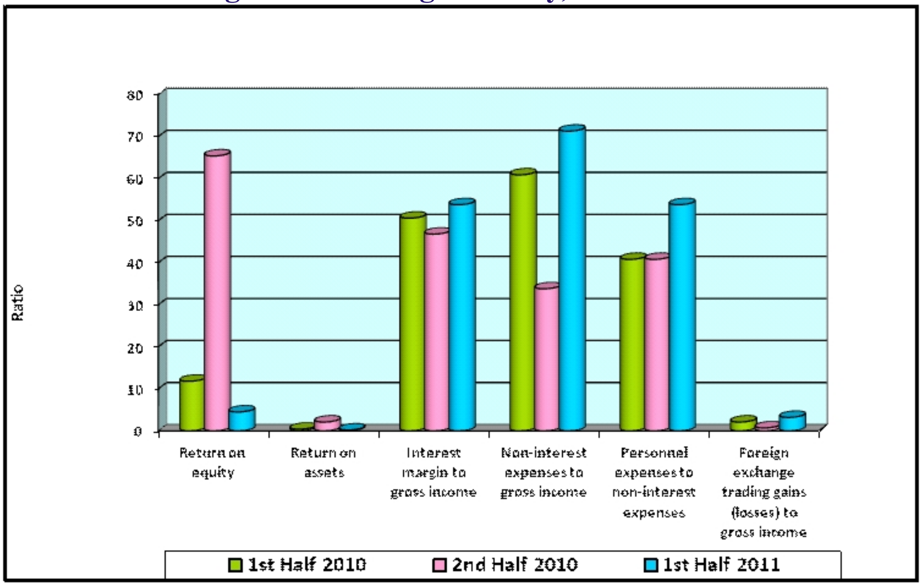
Figure 19: Banking Industry NPLs to Total Loans, 2010 - 2011



5.1.1.3 Earnings and Profitability

The return on equity (ROE) dropped sharply to 4.5 per cent in the review period from 65.4 per cent in December 2010 (Figure 21). The unusually high ROE recorded in December 2010 was as a result of the sale of EBAs to AMCON that necessitated the write-back of provisions made on those assets. Similarly, the return on assets (ROA) decreased to 0.2 per cent in June 2011 from 2.1 per cent in December 2010. This decline was corroborated by the rising ratio of expenses: at 71.3 and 53.8 per cent, the ratios of non-interest expenses to gross income and personnel expenses to non-interest expenses rose by 37.5 and 13.0 percentage points, respectively, over their levels in the preceding half year.

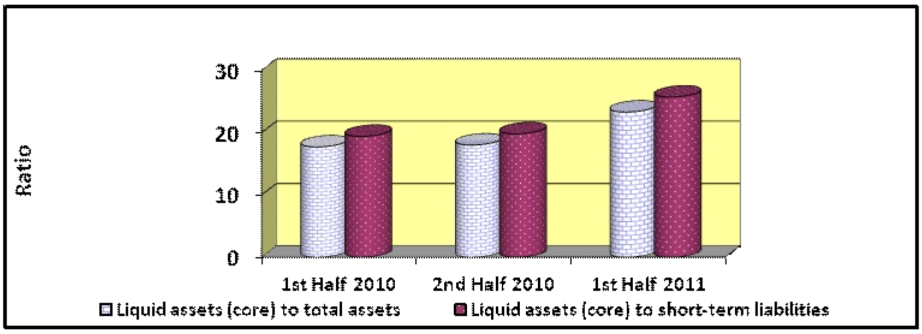
Figure 20: Selected Profitability Ratios of the Nigerian Banking Industry, 2010 - 2011



5.1.1.4 Liquidity

Indicators revealed a sustained improvement in liquidity in the system since 2010. The ratio of core liquid assets to total assets increased by 5.3 percentage points to 23.3 per cent at end-June 2011, from 18.0 per cent at end-December 2010. Similarly, the ratio of liquid assets to short-term liabilities increased by 5.9 percentage points to 25.7 per cent at end-June 2011 (Figure 22).

Figure 21: Banking Industry Liquidity Ratios



5.1.2 The Banking Industry Stress Test

In accordance with a key objective of macro-prudential supervision, a stress test was conducted as at June 30, 2011 to identify and measure the vulnerability and resilience of the industry to shocks.

The test result indicated that credit risk was the most significant risk faced by the banking industry, followed by exchange rate risk. The industry was adjudged to be less vulnerable to liquidity and interest rate risks (Appendix 1) than in the previous six (6) months.

It is expected that the on-going reforms in the industry would address the identified weaknesses in the short to medium term.

Box 1: Summary of Stress Test Result

Credit Risk

The main vulnerability of the banks stemmed from credit risk, particularly their exposure to the Financial sector, the General sub-sector, and Oil & Gas Sub-sector. The ratio of banking industry NPLs to gross loans stood at 14.5 per cent, while those of the large, medium and the small banks were 11.0, 14.9 and 26.9 per cent, respectively. These figures are relatively high and any further deterioration in asset quality would lead to significant capital impairment.

Liquidity Risk

Liquidity risk was rated low in the banking industry as only a few banks showed significant vulnerability to liquidity shocks.

Interest Rate Risk

The results of the sensitivity analysis on "returns on assets", and "returns on equity" revealed that the entire banking industry , categorised banks and individual banks are less vulnerable to interest rate risk as their pre-shock positions (in terms of capital impairment, ROA and ROE) declined only marginally, even after the most strained shocks applied.

Exchange Rate Risk

The banking industry (the big, medium and small banks), was exposed to considerable foreign exchange rate risk. The impact was higher with the depreciation of the Naira. The depreciation of the Naira had significant impact on most banks. This was due largely to a high FX asset position relative to total risk weighted assets and total qualifying capital, which stood at 13.72% and 296.85%, respectively. The entire banking industry, categorised and individual banks, were exposed to considerable exchange rate risk.

FX Trading Risk

The banking industry showed less vulnerability to FX trading risk. The banks' pre-shock positions, both in terms of impact on ROA and ROE changed only marginally even after an induced 100% decline in FX trading income. This was due mainly to the high net profit positions of the banks relative to size of the FX trading income.

5.2 Licensing and Approvals

5.2.1 Bureaux-de-Change

In the first half of 2011, 38 new BDCs were granted licences, bringing the total number to 1,997.

5.2.2 Microfinance Banks

A total of 123 applications were received of which 28 were granted licences, while the remaining 95 were being processed.

5.2.3 Finance Companies

Two (2) applications were received. One (1) was issued a licence, while the other was granted an AIP status.

5.2.4 The New Banking Model Compliance Plan

Approval in Principles (AIPs) were granted to seventeen (17) of the twenty four (24) DMBs that submitted their compliance plans as required in the new banking model. The processing of the applications of the remaining seven (7) DMBs was deferred, pending the conclusion of their recapitalisation plans.

5.3 Supervision of Banks and Other Financial Institutions

5.3.1 Deposit Money Banks (DMBs)

A Target Examination of DMBs, as at December 31, 2010, was conducted during the review period to assess their asset quality and ascertain the levels of provision required in their 2010 audited financial statements. The reports noted that most of the banks had sold substantial portions of their non-performing loans (NPLs) to AMCON, thereby significantly reducing their required provisions at end-December 2010.

5.3.2 Discount Houses

Examination of the five discount houses revealed that three of them had a composite risk rating of "above average", while two were rated "moderate".

The risk management functions in the discount houses were rated as "needs improvement" owing to weaknesses in risk management and poor corporate governance practices arising from weak board oversight and non-appointment of independent directors.

The capital of four of the discount houses was above the minimum regulatory requirement. However, one discount house did not meet the minimum capital adequacy requirement of 10% for the level of its operations for most of the examination period. Its capital was, therefore, rated "weak", while the capital ratings of the other four discount houses were "acceptable".

The earnings of three discount houses were rated as "acceptable" and two as "needs improvement".

5.3.3 Other Financial Institutions

5.3.3.1 Microfinance Banks (MFBs)

Following the revocation of the banking licences of 224 MFBs on September 24, 2010, 121 of these were granted provisional licences as a result of fresh injection of capital and recoveries of bad loans. Special examination was conducted to verify fresh capital injections and compliance with the conditions for the granting of licences. The exercise was carried on 119 of the 121 MFBs during the review period, while 2 were exempted because one had been acquired and the other was holding an AIP.

Highlights of the examination reports include the following:

- 74 or 62.2 per cent of the 119 MFBs had injected fresh capital to shore-up their shareholders' funds, unimpaired by losses, to meet the minimum requirement of N20 million;

- 11 or 9.2 per cent of the MFBs injected additional capital which were, however, insufficient to bring the shareholders' funds, unimpaired by losses, to the regulatory minimum level; and
- 34 or 28.6 per cent of the MFBs were “technically insolvent” and “terminally distressed” owing to the failure of their shareholders to inject additional capital necessary to increase the shareholders' funds, unimpaired by losses, to the regulatory minimum of N20 million.

Following the non-issuance of provisional licences to 103 of the 224 MFBs whose licences were revoked in September 2010, the Nigeria Deposit Insurance Corporation (NDIC) commenced their liquidation and payment of insured deposits.
During the review period, the Bank also commenced special examination of MFBs that were classified “marginal” and “unsound”, based on the CBN/NDIC joint target examination in 2010.

5.3.3.2 Primary Mortgage Institutions (PMIs)

The analysis of the operational status of the licensed 101 PMIs was concluded within the review period. The review led to the classification of 29 PMIs as 'sound', five (5) as 'marginal', 18 as 'unsound' and 22 as 'insolvent'. One (1) PMI was newly licensed and not due for a regulatory performance review, nine (9) were undergoing restructuring, while 17 had closed shop. Consequently, the institutions were notified of the following regulatory decisions:

- PMIs classified as “marginal” were required to inject fresh capital or liquid assets necessary to bring their prudential ratios within the acceptable limits.
- PMIs classified as “unsound” were, in addition to the requirement specified above: prohibited from paying dividends; restricted from making new investments in fixed assets and subsidiaries without the prior approval of the CBN; advised to embark on aggressive loan recovery; and placed on the CBN/NDIC watch list.
- PMIs classified as “technically insolvent” were, in addition to the requirements specified above, restricted from any new lending except to the extent of recoveries made; and given a month's deadline to submit their turnaround business plans outlining, inter alia, how fresh funds would be injected into the institutions.

The PMIs were required to fulfil the above conditions within six months, while a joint CBN/NDIC special examination was to be carried out on the technically insolvent PMIs at the expiration of the deadline. The examination was programmed preparatory to the revocation of the licence and takeover for NDIC liquidation of the institutions that failed to actualize their turn-around plans.

Notice of intent to revoke the licences of the PMIs that had closed shop would be published, while members of the public would be allowed to express objections within a period of 90 days, as specified by the relevant banking laws of Nigeria.

5.4 Cross-border Supervision

5.4.1 Closure of Foreign Subsidiaries

In order to stabilise and reduce overheads as well as comply with the new banking model, three (3) Nigerian banks were granted approval to either divest or close their foreign subsidiaries, while one other was granted approval to discontinue the process of establishing a foreign subsidiary.

5.4.2 Capital Augmentation for Banks in West Africa

Some central banks in the region increased the minimum capital requirement of banks in their jurisdictions during the review period. As a result, Nigerian banks with subsidiaries in the zone were granted approval to comply with the new capital requirements.

5.4.3 The College of Supervisors of the West African Monetary Zone (CSWAMZ)

The third meeting of the College was held at the Central Bank of Nigeria, Abuja, from 8th to 9th February 2011, while the fourth meeting was held at the Central Bank of The Gambia, Banjul, from 1st to 3rd June 2011. Some of the decisions reached at the meetings include the following:

- The decision of the Committee of Governors of ECOWAS at its meeting held in Dakar, to admit BCEAO and Cape Verde to join the CSWAMZ on an observer status was noted and adopted;
- Regulatory reports should be standardised;
- Supervisory processes in the Zone should be harmonised to prevent regulatory arbitrage;
- Members should adopt the electronic Financial Analysis and Surveillance System (e-FASS) as a supervisory tool;
- Members were urged to implement the RBS, the IFRS, the Basel II and the Basel Core Principles for Effective Banking Supervision; and
- Financial Stability Report should be produced for the Zone.

The achievements of the College during the review period include the following:

- Capacity building initiatives on IFRS and a Foundation Course on Banking Supervision held in April and June 2011, respectively;
- Creation of a portal by WAMI for information-sharing among supervisors;
- Development of a framework on corporate governance for banks and other financial institutions to strengthen supervisory standards; and
- Approval for the conduct of joint examinations in The Gambia, Ghana, Guinea and Sierra Leone by Nigeria and the host supervisors in order to further strengthen cross-border supervision.

5.4.4 Memoranda of Understanding (MoUs)

During the review period, the CBN signed four MoUs with the Central Bank of Kenya, the National Bank of Rwanda, the Bank of Zambia and Banking Commission of the West African Monetary Union (BCEAO), bringing the total number of such memoranda to 12.

5.5 The Financial Services Regulation Coordinating Committee (FSRCC)

The FSRCC embarked on a number of initiatives, including the following:

- Developing a website, www.fsrcc.gov.ng, to create public awareness of the collaborative efforts of member agencies;
- Drafting a framework for consolidated supervision and examination of financial conglomerates; and
- Commissioning studies on the effect of the bond market on the financial soundness of investing banks and the impact of AMCON on the performance of banks and the capital market.

5.6 Supervisory Challenges

The supervisory challenges that were faced during the period centred on the efforts to manage the lingering effects of the global economic and financial crises and the Bank's subsequent intervention in some deposit money banks. The challenges are highlighted hereunder, in sub-sections 5.6.1 to 5.6.7.

5.6.1 Towards Recovery from the Global Economic and Financial Crises

Despite various interventions by governments and central banks to address the effects of the global financial and economic crises, recovery had been slow. In Nigeria, the challenges to achieve sustained recovery included the following:

- Containing inflation exacerbated by the quantitative easing and an accommodating monetary policy stance adopted in response to the global financial crisis;

- Recovery of credits granted for capital market transactions and to the oil and gas sector;
- Encouraging banks to lend to the real sector of the economy;
- Attracting foreign investment; and
- Maintaining exchange rate stability in the face of negative real interest rates and persistent demand pressure.

5.6.2 Weak Corporate Governance

The challenges faced in the area of corporate governance persisted, although they were less serious. The observed improvement was due largely to the resolute enforcement of the provisions of the Code of Corporate Governance for Banks in Nigeria, with the strong cooperation of other stakeholders, including the law enforcement agencies and the judiciary.

5.6.3 Inadequate Legal Framework

The inadequacy of the legal framework constituted a major factor which undermined the effectiveness of supervision, especially in the area of regulatory interventions. Meanwhile, an Anti-Terrorism Act was enacted while the Money Laundering (Prohibition) Act of 2004 was amended during the period under review. Efforts are also being intensified to amend the Banks and Other Financial Institutions Act, 1991.

5.6.4 Data Integrity

In order to promote data integrity, a proposal to design and install a system that would be used to carry out forensic checks on banks' applications was being considered. Meanwhile the Approved Persons' Regime in Banks was approved and is being implemented. Furthermore, the electronic Financial Analysis and Surveillance System (eFASS), the main platform used by Financial Institutions for the rendition of returns to the supervisory authorities is being reviewed with the support of the developers to bring on stream identified user requirement modules.

5.6.5 Inadequate Supervisory Capacity

The adoption of the RBS and Consolidated Supervision methods in the supervision of financial institutions has faced some challenges in terms of the skills required for their successful implementation. The CBN, therefore, has embarked on the training and retraining of staff, especially in the areas of risk-based supervision and consolidated supervision to address the challenges.

5.6.6 Growing Complexity in the Operations of Financial Institutions

In order to address concerns over the growing complexity in the products and operations of financial institutions in Nigeria, a number of initiatives have been adopted and are being implemented. These include: the new banking model to ring-fence banks from risks arising from non-bank businesses; the strengthening of the supervisory processes through the RBS and consolidated supervision; intensification of efforts aimed at improving corporate governance and risk management practices in supervised institutions; and the signing of MoUs with some countries to streamline areas of cooperation for effective supervision.

5.6.7 The Activities of Illegal Finance Operators in the Economy

The CBN intensified efforts to check the menace of illegal Fund Managers, otherwise known as "wonder banks", which continued to pose a challenge to the financial sector during the review period. In this regard, the CBN sustained its extensive media campaign embarked upon since December 2010, using the print and electronic media as well as mobile telephony to caution the public on the activities of illegal Fund Managers. Banks were also made to refund the amounts illegally withdrawn from the accounts of "wonder banks" maintained with them after the judgment of the Investment and Securities Tribunal and to transfer same to an escrow account in the CBN. In addition, a surveillance team was constituted to monitor and close down offices of illegal Fund Managers once they are identified. Also, the consent of the Attorney General of the Federation was obtained for the courts to appoint Liquidators for the 30 "wonder banks" that accounted for about 50 per cent of the total deposits illegally mobilized from the public. Furthermore, the EFCC/SFU commenced criminal proceedings against some operators of "wonder banks".

5.7 Consumer Protection

During the review period, the Bank received 682 complaints, bringing the total to 2,742 from March 1, 2010 to end-June 2011. The complaints are mostly on excess charges, fraudulent withdrawals, non-crediting of accounts, cheque conversions, among others. Of the complaints received in the review period, 610 or 89.44 per cent had been processed, resulting in the refund of N1.68 billion. The total number of complaints processed, so far stood at 2,652 or 96.72 per cent, while total refunds, so far amounted to N3.96 billion, US$198,118.75, and €10,000.

5.8 The Focus of Supervision

With the planned adoption of the International Financial Reporting Standards (IFRS) by Nigerian banks in 2012, the CBN issued a Guidance Document on the IFRS during the review period. Banks were required to submit quarterly progress reports on their IFRS implementation efforts. Surveillance activities would, therefore, focus on ensuring a seamless transition from the NGAAP+ to the IFRS.

In order to promote financial stability, supervisory activities in the second half of 2011 will focus on strengthening the Financial Stability Committee (FSC), in conjunction with other bodies through the FSRCC, on the identification of early warning signals on systemic distress. The implementation of the revised banking model that requires banks to divest from their non-banking subsidiaries and the framework for the regulation of the Credit Bureau will also be in focus and be closely monitored.

The activities of the AMCON will aim at ensuring that banks' NPL ratios are kept below the prudential maximum of 5.0 per cent. The CBN will also ensure that strategic investors in the intervened banks entrench good corporate governance and risk management practices.

6.0 THE NIGERIAN PAYMENTS SYSTEM

Consistent with the objectives of the Payments System Vision 2020, the Bank adopted payment policies that focused on migration from a cash-based to an e-payment-driven system. In addition, circulars and guidelines were issued towards promoting the efficiency, safety and reliability of the payments system.

6.1 The Payments System Vision 2020 (PSV 2020)

The implementation of the PSV 2020 recorded additional achievements in the first half of 2011, as the CBN took the following measures:

- Commissioned an independent audit of 16 mobile payment schemes which were on a pilot run, pursuant to the issuance of final operating licences;
- Sensitised stakeholders on the Approved Direct Debit rules to facilitate the use of electronic consumer bill payments;
- Issued guidelines on the initiatives listed below to improve public confidence in the payments system:
  - o Electronic payment of taxes,
  - o Electronic payment of salaries and pensions by organizations with more than 50 employees, and
  - o Electronic payment of government suppliers;
- Commenced the upgrade of the Real-Time Gross Settlement (RTGS) System to meet the requirements of FSS 2020;
- Directed banks to implement the 10-digit Nigeria Uniform Bank Account Number (NUBAN) with a transition period of one year ending June 1, 2012. The NUBAN is expected to reduce the:
  - o Volume of unprocessed transactions due to wrong account numbers,
  - o Number of postings to wrong accounts by receiving banks, and
  - o Incidence of delayed presentation of Automated Clearing House (ACH) items.

6.2 Developments in the Payments System

The CBN adopted the following initiatives to enhance the Nigerian Payments System:

- Fixed a daily cumulative limit of N150,000 for individual customers and N1,000,000 for corporate customers on cash withdrawals effective June 1, 2012. However, withdrawals above these limits would attract charges. The pilot run would commence in Lagos State, the Federal Capital Territory (FCT), Kano, Port-Harcourt, and Aba from January 2, 2012. The above measure was introduced to reduce the high dominance of cash in payments transactions and the concomitant high and unsustainable currency issue and management expenses, thereby promoting the use of more cost-effective non-cash payment modes:

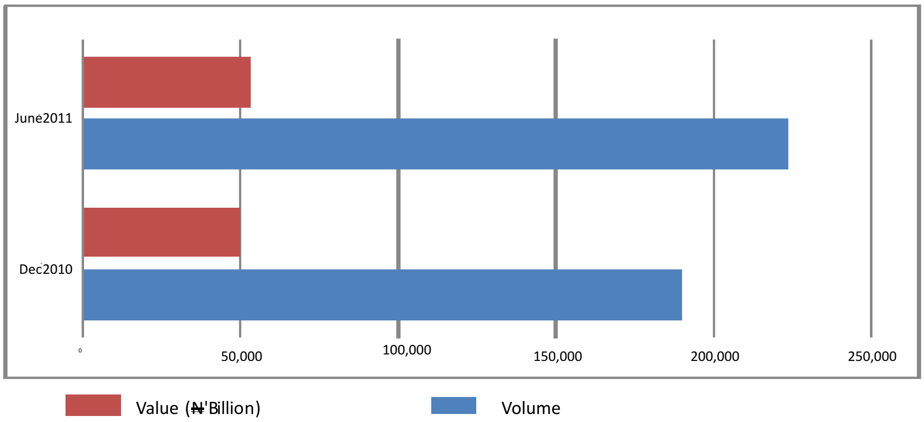
- Over-the-counter encashment of third party cheques above N150,000 would be disallowed, with effect from June 1, 2012 when value for such cheques shall only be received through clearing;
- Cash-in-transit (CIT) lodgement services rendered to merchant customers by banks shall cease from June 1, 2012. However, customers could engage the services of CBN-licensed CIT companies to facilitate cash movements to and from their banks at mutually agreed terms and conditions;
- Prohibited exclusive acquirer contracts for card schemes to enhance interoperability, with effect from June 2011;
- Massive deployment of Point of Sale (POS) terminals under the shared service project with a view to reducing the cost of operations; and
- Approved, in principle, a strategic alliance with the Nigerian Postal Service (NIPOST) to integrate the Post into the payments system by offering branchless banking to reach the remote parts of the country.

These initiatives were expected to promote confidence in the system, enhance efficiency, improve customer convenience and facilitate financial inclusion.

6.2.1 The Real-Time Gross Settlement (RTGS) System

The volume and value of inter-bank transactions through CBN's RTGS System (CBN Inter-bank Funds Transfer System - CIFTS) increased to 223,959 and N53,146.82 billion, respectively, in the first half of 2011, from 190,138 and N49,640 billion in the second half of 2010, reflecting growth rates of 17.79 and 7.06 per cent, respectively (Figure 23).

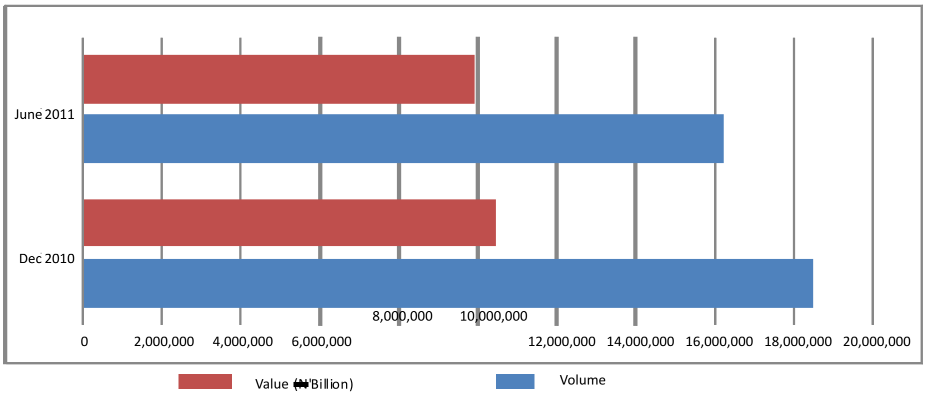
Figure 22: CBN's RTGS Transactions, July 2010 - June 2011



6.2.2 Cheque Clearing

In the first half of 2011, the volume and value of cheques cleared declined by 12.30 and 4.74 per cent to 16,188,775 and N9,919.05 billion, respectively, from 18,458,480 and N10,412.12 billion recorded in the second half of 2010 (Figure 23). The decline was attributed to increased use of other modes of payment, such as RTGS, NIBSS Inter-bank Funds Transfer (NEFT), Automated Teller Machines (ATMs), mobile banking, and internet payments, among others.

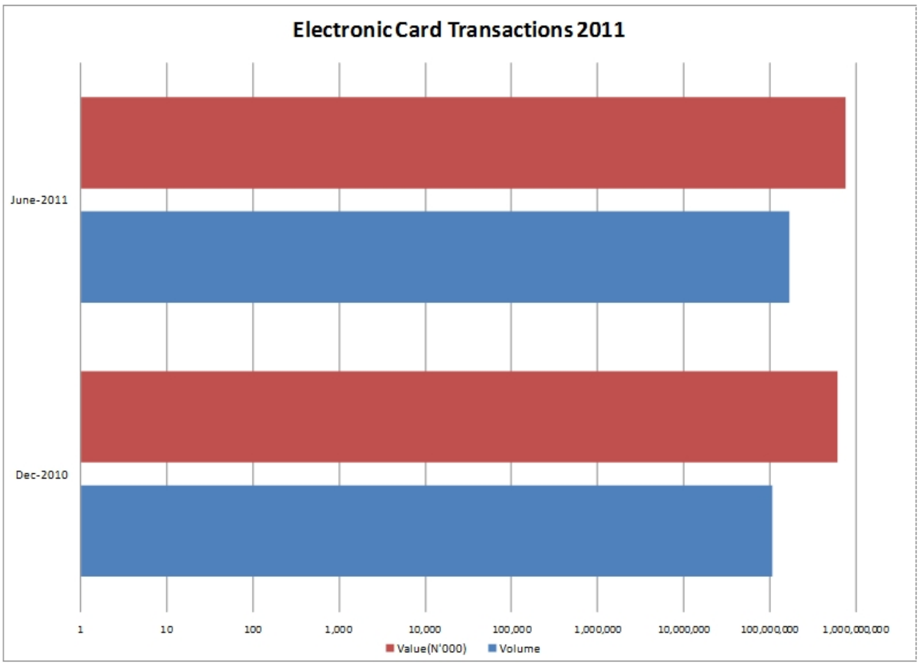
Figure 23: Volume and Value of Cheques Cleared, July 2010 - June 2011



6.2.3 Electronic Card Payments

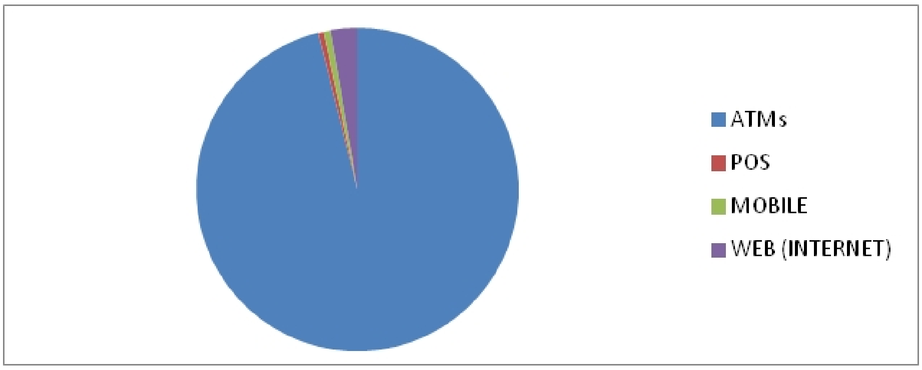
The volume and value of electronic card (e-card) transactions increased to 167,962,665 and N764.14 billion during the first half of 2011, from 106,739,822 and N610.22 billion, respectively, during the second half of 2010, reflecting increases of 57.36 and 25.22 per cent, respectively (Figure 24). The growth was attributed to enhanced public confidence in card payments, following the enhanced security features in the cards and adoption of stringent measures to combat fraud and deepen the use of electronic payments.

Figure 24: Electronic Card Transactions, July 2010 - July 2011



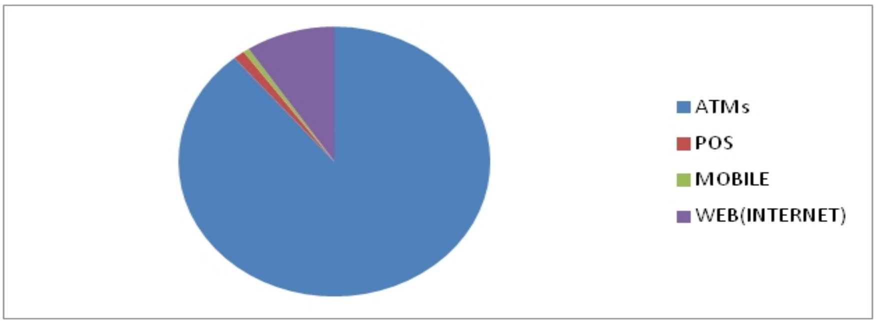
Available data on various e-payment channels for the period under review indicated that ATMs remained the most patronized, accounting for 98.09 per cent of the number of transactions, followed by the Web (Internet) 0.72 per cent, and Mobile 0.71 per cent. The Point-of-Sale (POS) terminal was the least patronised, accounting for 0.48 per cent of total e-payment transactions (Figure 25).

Figure 25: Volume of Electronic Card Transactions, January - June 2011



Similarly, in value terms, ATMs accounted for 91.37 per cent, the Web (Internet) 6.04 per cent, POS 1.67 per cent, while Mobile payments accounted for 0.92 per cent (Figure 26).

Figure 26: Value of Electronic Card Transactions, January - June 2011



6.2.4 Automated Teller Machine (ATM) Transactions

The number of ATMs deployed stood at 9,443 at end-June 2011. The increase in the use of ATMs continued during the first half of 2011, with the volume and value of transactions amounting to 164,755,055 and N698.19 billion, respectively. These figures reflected increases of 60.57 and 27.74 per cent over the volume and value of 102,608,918 and N546.55 billion, respectively, recorded in the second half of 2010.

6.2.5 Mobile Banking

The volume and value of payments through the mobile banking channel increased by 60.96 and 60.09 per cent to 1,195,459 and N7.06 billion, respectively, in the period under review, from 742,694 and N4.41 billion in the second half of 2010.

6.3 Payments System Challenges

Despite the progress recorded so far, the following challenges persisted, among others:

- High transaction costs,
- High dependence on cash transactions,
- High level of illiteracy,
- Low level of internet access,
- Inadequate inter-connectivity and inter-operability,
- Low level of public awareness of the existence of some non-cash payment products, resulting in under-utilisation of e-payments solutions,
- High concentration of e-payment facilities in urban centres,
- Poor state of infrastructure,
- High incidence of electronic fraud,
- Large informal sector where cash is the only acceptable means of payment and lack of transparency and audit trail associated with cash transactions, and
- High level of money laundering risks and vulnerabilities.

It is expected that the full implementation of the PSV 2020 project and other on-going reforms would significantly address these challenges.

7.0 PRESERVING THE INTEGRITY OF THE FINANCIAL SYSTEM

7.1 The Asset Management Corporation of Nigeria (AMCON)

The Corporation continued to play significant roles in stabilizing the financial system through the acquisition of EBAs. At end-June 2011, three tranches of bonds amounting to N1,811 billion had been issued in exchange for EBAs valued at N2,827 billion. These resulted in:

- Improved NPL/TL ratio
- Improved liquidity to the banking industry
- Improved banks' capital
- Increased lending by banks
- Enhanced earning opportunities to the banks through the bond income; and
- Improved confidence in the banking industry

7.2 The Implementation of International Financial Reporting Standards (IFRS)

During the period under review, a number of actions were taken by the CBN towards the implementation of the IFRS. These included:

- Issuance of a circular on the conversion of end-2010 financial statements to the IFRS-based figures;
- Setting up of six workgroups on Gap/Impact Analysis, Information Technology, Internal Reporting, Mobilisation, Sensitisation & Administration, Capacity Building, and Legal & Legislative Review; and
- Review of the IFRS implementation plan.

Although appreciable progress has been made to prepare the sector for the IFRS adoption, additional work is required to meet the target reporting date of January 2012.

7.3 Update on Credit Information Bureaux

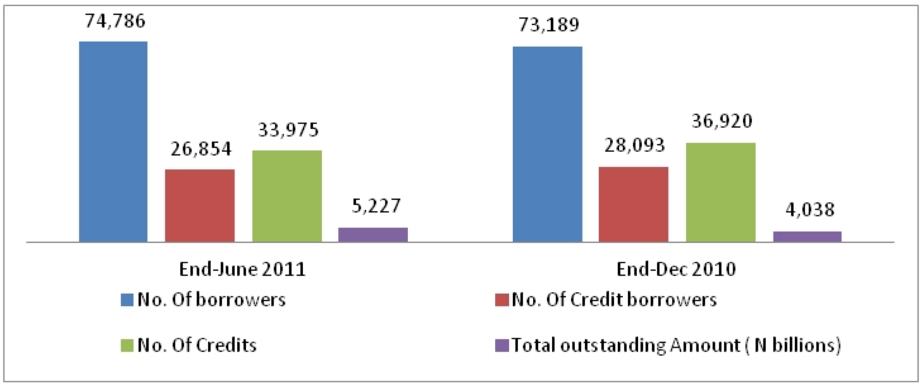
7.3.1 CBN's Credit Risk Management System (CRMS)

The CBN, through its CRMS, recorded a remarkable improvement in the management of basic credit information on customers, thereby enhancing credit administration and the quality of risk assets.

The number of registered borrowers in the CRMS database grew by 2.20 per cent, from

73,189 in December 2010 to 74,786 at end-June 2011. Similarly, the number of borrowers with outstanding credit facilities of N1 million and above grew by 1.8 per cent, from 26,367 in December 2010 to 26,854 in June 2011, while the number of outstanding credit facilities rose by 4.4 per cent, from 32,557 to 33,975 in the same period. However, the value of total outstanding credits declined by 0.25 per cent, from N5,240 billion at end-December 2010 to N5,227 billion at end-June 2011(Figure 27).

Figure 27: Selected CRMS Statistics, 2010 2011



The growth in the number of registered borrowers and credit facilities was largely driven by two factors:

- Improved appreciation among banks and their customers on the critical role of the CRMS; and
- Increased co-operation among stakeholders.

The decrease in total outstanding credit is attributed to the sale of non-performing loans to AMCON.

7.3.2 Private Credit Bureaux (PCBs)

The number of private credit bureaux remained at three during the period under review, and their activities continued to complement CBN's Credit Bureau (CRMS). Their activities were buoyed by increased demand for borrower/customer credit information and status enquiries by financial and non-financial entities.

The range of products and services provided by the PCBs were:

- Customer identity verification,
- Credit reports,
- Self-enquiry,
- Bulk portfolio review,

- Credit scoring and rating, and
- Referencing and credit risk assessment.

The challenges faced by the PCBs included:

- Low public awareness on the importance of their operations;
- Lack of an acceptable unique identifier;
- Inadequate skilled manpower; and
- Long turnaround time for the resolution of disputes.

7.4 The Financial System Strategy 2020 (FSS 2020)

The Financial System Strategy 2020 (FSS 2020) was initiated to make Nigeria's financial services industry serve as a catalyst for the growth and development of Nigeria into an international financial centre and the transformation of Nigeria into one of the world's 20 largest economies by 2020.

The activities of the FSS 2020 included the following:

- Legislative Engagement: The FSS 2020 Secretariat intensified its legislative engagement for the consideration of the following bills by the National Assembly the Nigeria International Financial Centre Bill, the Financial Ombudsman Bill, the Electronic Transactions Bill and the Alternative Dispute Resolution Commission Bill. These bills seek to enhance the legal framework for the sustenance of financial stability in Nigeria.

- Risk-Based Supervision (RBS): The Secretariat facilitated the formation of a Project Management Group for the implementation of RBS in the financial system.

- International Financial Reporting Standards (IFRS): The FSS 2020 Secretariat established the Regulators' Forum for the harmonization and standardization of institutional roadmaps on the implementation of IFRS in Nigeria.

The Secretariat will continue to provide a platform for the successful implementation of the FSS 2020.

8.0 CONCLUSION

The promotion of a sound and stable financial system remained a core mandate of the CBN. This mandate is critical to the achievement of government's broad macroeconomic objectives of maintaining price stability, a favourable balance of payments, low unemployment, and sustainable economic growth and development.

In order to ensure the effectiveness and efficiency of the financial system, the CBN continued to embark on a systematic review of relevant regulations, guidelines and supervisory methodologies towards addressing the challenges of data integrity, regulatory enforcement, corporate governance, and risk management. The Bank also pursued the amendment or enactment of related enabling legislation to strengthen the regulatory and supervisory framework for the financial system.

The state of the intervened banks and their prolonged recapitalisation process gave rise to a number of vulnerabilities and weaknesses which posed threats to the stability of the financial system. Despite these challenges, the quality of banking industry risk assets improved modestly, owing mainly to the activities of AMCON, the implementation of a risk-based supervision framework, improved risk management practices in the DMBs, and the provision of real sector intervention funds by the Bank. Activities in the capital market were also influenced positively by improved liquidity and the successful conduct of the 2011 general elections.

As part of the efforts to enhance transparency in financial reporting, the CBN issued a Guidance Document on IFRS during the review period, requiring banks to submit quarterly progress reports of their IFRS implementation efforts towards the adoption of the Standards by 2012.

In promoting financial stability, supervisory activities in the second half of 2011 will focus on the implementation of the revised banking model and the framework for the regulation of the credit bureaux; re-capitalization of the intervened banks; good corporate governance and risk management practices; and strengthening the Financial Stability Committee (FSC) with the FSRCC for the identification of systemic distress early warning signals.

In view of the commitment of the Federal Government to the on-going economic and financial reforms, the economy is expected to record modest growth in the second half of 2011. Inflationary pressure is also expected to be contained, in view of the tight monetary policy stance of the Bank, while the exchange rate would be expected to remain relatively stable.

Overall, the current initiatives aimed at increased productivity in the real sector and reforms in the other sectors are expected to impact positively on the economy.

GLOSSARY

a) Technical Terms

Concentration Ratio (CR)

This is the percentage market share attributable to a given number of firms in an industry, e.g., CR6 means the market share of the largest six firms.

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Another name for credit risk is 'default risk'.

Herfindahl-Hirschman Index (HHI)

This is a measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing up the resulting numbers.

Liquidity Risk

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the desired profit).

Market Capitalization

This is the total market value of a company's issued shares. Market capitalization is calculated by multiplying number of a company's shares outstanding by the current market price of the shares.

Market Risk

Market risk is the risk that the value of an investment portfolio, or a trading portfolio, will decrease as a result of changes in either rates or prices or a combination of rates and prices.

Money Supply

The total money in circulation in an economy of a given country at a given time.

Operational Risk

Operational risk is the risk arising from the execution of a company's business functions. It is a very broad concept which focuses on risks arising from the people, systems and processes through which a company operates.

Reputational Risk

Reputational risk is any risk to an organization's reputation that is likely to destroy shareholder value.

b) Organizations in Nigeria's Financial Sector

The Asset Management Corporation of Nigeria (AMCON)

AMCON was established through the AMCON Act of 2010, with responsibility for the acquisition, management and disposal of the non-performing assets of Nigerian banks.

The Central Bank of Nigeria

The CBN regulates deposit money banks (DMBs) and other financial institutions (OFIs), namely, primary mortgage institutions (PMIs), bureaux-de-change (BDCs), microfinance banks (MFBs), finance companies (FCs), discount houses (DHs), and development finance institutions (DFIs).

The Debt Management Office (DMO)

The DMO is responsible for the management of public debt in Nigeria.

The National Insurance Commission (NAICOM)

NAICOM is responsible for the regulation and supervision of the insurance sub-sector.

The National Pension Commission (PENCOM)

PENCOM is the regulatory agency charged with the oversight responsibility for pension fund custodians and pension fund administrators in Nigeria, under the Pension Reform Act of 2004.

The Nigeria Deposit Insurance Corporation (NDIC)

The primary responsibility of the NDIC is the insurance of depositors' funds in DMBs and other insured financial institutions. In addition to complementing the supervisory efforts of the CBN, the Corporation liquidates failed financial institutions.

The Nigerian Stock Exchange (NSE) and the Abuja Securities and Commodities Exchange (ASCE)

These are the two exchanges in the Nigerian capital market. The NSE has authority over the securities' trading rules and regulations, while the ASCE superintends commodities trading.

The Securities and Exchange Commission (SEC)

The Securities and Exchange Commission is the regulator of the Nigerian capital market.

Appendix 1: Result of the Banking Industry Stress Test at end-June 2011

Minimum Regulatory CAR :10%		All banks (24)	Large banks (6)	Medium-sized banks(8)	Small banks (10)
Shocks/Impact on CAR:		**Solvency Ratio Before Shocks**			
Pre-shock CAR		**4.62**	**11.93**	**4.05**	**-17.32**
Credit Risk Shocks		**Solvency Ratio After Shocks**			
	Shock 1ai (10%NPLs increase)	3.95	11.45	3.32	-18.61
	Shock 1aii (15% NPLs increase)	3.62	11.21	2.95	-19.26
	Shock 1aiii (20% NPLs increase)	3.28	10.97	2.58	-19.92
	Shock 1aiv (30% NPLs increase)	2.59	10.49	1.83	-21.27
	Shock 1av (50% NPLs increase)	1.19	9.50	0.29	-24.06
	Shock 1avi (100% NPLs increase)	-4.91	5.12	-6.40	-35.54
	Shock 1avii (200% NPLs increase)	-10.78	1.37	-12.99	-49.88
	Shock 1bi (shift 20%)	4.03	11.49	3.28	-18.11
	Shock 1bii (shift 50%)	3.35	11.01	2.54	-19.42
	Shock 1biii (shift 100%)	2.08	10.10	0.95	-21.33
	2ai - Single biggest corporate obligor credit facilities shifted from Pass - through to Sub - standard (10%)	4.17	11.48	3.60	-17.77
	2aii - Single biggest corporate obligor credit facilities shifted	2.33	9.67	1.75	-19.60

2aiii- Single biggest corporate obligor credit facilities shifted from Doubtful to Lost (100%)	-0.08	7.30	-0.67	-21.98
2bi - Five biggest corporate obligor credit facilities shifted from Pass-through to Sub-standard (10%)	3.19	10.57	2.60	-18.93
2bii- Five biggest corporate obligor credit facilities shifted from Sub - standard to Doubtful (50%)	-3.02	4.70	-3.68	-25.86
2biii - Five biggest corporate obligor credit facilities shifted from Doubtful to Lost (100%)	-11.99	-3.83	-12.76	-35.76
Shock 3ai (Oil & Gas) 20% default	4.36	11.69	3.80	-17.67
Shock 3aii (Oil & Gas) 50%	3.97	11.34	3.41	-18.21
Shock 3aiii (Oil & Gas) 100%	3.31	10.75	2.76	-19.12
Shock 3bi (Public Utilities 10% default)	4.62	11.93	4.05	-17.32
Shock 3bii (Public Utilities 20% default)	4.62	11.93	4.05	-17.33
Shock 3biii (Public Utilities 50% default)	4.62	11.93	4.05	-17.34
Shock 3biv (Public Utilities 100% default)	4.61	11.93	4.05	-17.36
Shock 3ci (General sector 20% default)	4.38	11.74	3.86	-17.88
Shock 3cii (General sector 50%	4.03	11.47	3.57	-18.73

Shock 3ciii (General sector 100% default)	3.42	11.01	3.09	-20.17
Shock 3di (100% Gen com becomes NPLs)	4.11	11.62	3.35	-18.21
Shock 3dii (100% Gen com becomes NPLs)	3.59	11.31	2.64	-19.12
Shock 3diii (100% Gen com becomes NPLs)	2.00	11.93	0.45	-21.92
Shock 3ei (Fin services 20%)	4.04	11.50	3.19	-19.12
Shock 3eii (Fin services 50%)	3.15	10.84	3.17	-21.76
Shock 3eiii (Fin services 100%)	1.64	9.73	2.28	-26.56
Shock 3fi (10% default in exposure to Real Estate)	4.33	11.73	3.35	-18.21
Shock 3fii (20% default in exposure to Real Estate)	4.05	11.53	3.56	-18.83
Shock 3fiii (30% default in exposure to Real Estate)	3.17	10.94	2.82	-21.18
Shock 3fiv (50% default in exposure to Real Estate)	3.17	10.94	2.82	-21.18
Shock 3fv (100% default in exposure to Real Estate)	3.17	10.94	2.82	-21.18
Shock 3gi (10% default in exposure to Aviation)	4.56	11.84	4.04	-17.39
Shock 3gii (20% default in exposure	4.50	11.75	4.03	-17.46

Shock 3gii (20% default in exposure to Aviation)	4.50	11.75	4.03	-17.46
Shock 3giii (50% default in exposure to Aviation)	4.31	11.49	4.01	-17.69
Shock 3giv (100% default in exposure to Aviation)	4.00	11.05	3.96	-18.06
Shock 3hi (20% default in exposure to Information and Communication)	3.80	11.30	3.00	-18.33
Shock 3hii (50% default in exposure to Information and Communication)	2.55	10.35	1.37	-19.88
Shock 3hiii (100% default in exposure to Information and Communication)	0.39	8.73	-1.47	-22.55
Shock 3ki (10% default in exposure to power and Energy)	4.56	11.88	3.96	-17.34
Shock 3kii (20% default in exposure to Power and Energy)	4.51	11.83	3.87	-17.36
Shock 3kii (20% default in exposure to Power and Energy)	4.33	11.69	3.61	-17.42
Shock 3kiii (50% default i n exposure to Power and Energy)	4.04	11.45	3.16	-17.53
Shock 3kiv (100% default in exposure to Power and Energy)	4.04	11.45	3.16	-17.53
Shock 3li (10% default in exposure to Capital Market)	4.51	11.90	4.05	-17.51
Shock 3lii (20% default in ex posure	4.39	11.77	3.92	-18.07

Shock 3lii (20% default in ex posure to Capital Market)	4.39	11.77	3.92	-18.07
Shock 3liii (50% default in exposure to Capital Market)	4.04	11.54	3.71	-19.23
Shock 3liv (100% default in exposure to Capital Market)	3.46	11.15	3.36	-21.21
Shock 3mi (20% default in exposure to Government)	4.33	11.67	3.85	-17.97
Shock 3mii (50% default in exposure to Government)	4.03	11.41	3.66	-18.62
Shock 3miii (100% default in exposure to Government)	3.13	10.62	3.05	-20.63
Exchange Rate				
Shocks/Impact on CAR				
Shock 4ai (10% depreciation against the Naira)	5.93	13.70	4.86	-16.51
Shock 4aii (20% depreciation against the Naira)	7.24	15.47	5.68	-15.70
Shock 4aiii (20% depreciation against the Naira)	11.17	20.79	8.11	-13.28
Shock 4aiv (100% depreciation against the Naira)	17.71	29.65	12.17	-9.23
Shock 4bi (10% appreciation against the Naira)	3.31	10.15	3.24	-18.13
Shock 4bii (20% appreciation against the Naira)	2.00	8.38	2.43	-18.93
Shock 4biii (50% appreciation against the Naira)	-1.92	3.06	-0.01	-21.36

Shock 4biv (100% appreciation against the Naira)	-8.47	-5.80	-4.07	-25.40
Interest Rate				
Shocks/Impact on CAR				
Shock 5ai (200bps upward parallel shift in yield curve)	4.61	12.04	3.90	-17.45
Shock 5aii (400bps upward parallel shift in yield curve)	4.60	12.15	3.74	-17.58
Shock 5aiii (500bps upward parallel shift in yield curve)	4.59	12.21	3.66	-17.65
Shock 5aiv (1000bps upward parallel shift in yield curve)	4.56	12.49	3.27	-17.98
Shock 5bi (200bps downward parallel shift in yield curve)	4.63	11.81	4.21	-17.18
Shock 5bii (400bps downward parallel shift in yield curve)	4.65	11.70	4.37	-17.05
Shock 5biii (500bps downward parallel shift in yield curve)	4.65	11.64	4.44	-16.98
Shock 5biv (1000bps downward parallel shift in yield curve)	4.69	11.36	4.83	-16.65
Initial ROA	**6.17**	**6.01**	**6.04**	**6.96**
Impact of Parallel Shift in Yield Curve Shocks on ROA				
ROA after:				
Shock 5ai (200bps upward parallel shift in yield curve)	6.16	6.09	5.92	6.86
Shock 5aii (400bps upward parallel shift in yield curve)	6.16	6.17	5.88	5.93

Shock 5aiii (500bps upward parallel shift in yield curve)	6.15	6.21	5.74	6.72
Shock 5aiv (1000bps upward parallel shift in yield curve)	6.13	6.41	5.43	6.47
Shock 5bi (200bps downward parallel shift in yield curve)	6.18	5.93	6.16	7.06
Shock 5bii (400bps downward parallel shift in yield curve)	6.19	5.85	6.28	7.15
Shock 5biii (500bps downward parallel shift in yield curve)	6.20	5.81	6.34	7.20
Shock 5biv (1000bps downward parallel shift in yield curve)	6.22	5.61	6.64	7.45
Initial ROE	**376.95**	**617.13**	**391.66**	**174.70**
ROE after:				
Shock 5ai (200bps upward parallel shift in yield curve)	376.38	625.37	383.82	172.25
Shock 5aii (400bps upward parallel shift in yield curve)	375.80	633.62	375.98	169.80
Shock 5aiii (500bps upward parallel shift in yield curve)	375.51	637.74	372.06	168.57
Shock 5aiv (1000bps upward parallel shift in yield curve)	374.07	658.36	352.46	162.45
Shock 5bi (200bps downward parallel shift in yield curve)	377.53	608.88	399.49	177.15
Shock 5bii (400bps downward parallel shift in yield curve)	378.10	600.64	407.33	179.60
Shock 5biii (500bps downward parallel shift in yield curve)	378.39	596.51	411.25	180.83
Shock 5biv (1000bps downward parallel shift in yield curve)	379.83	575.90	430.85	186.96

Initial LR	47.9%	52.9%	43%	54.4%
Shock 6ai (Gen run 10 %)	29.83%	34.98%	14.43%	42.85%
Shock 6aii (Gen run 15 %)	25.21%	30.44%	9.22%	39.22%
Shock 6aiii (Gen run 20%)	19.93%	25.22%	3.34%	35.09%
Shock 6aiv (Gen run 25%)	13.86%	19.15%	-3.36%	30.37%
Shock 6av (Gen run 50%)	-38.78%	-36.11%	-58.12%	-9.49%
Shock 6bi (Run on ST Dep 20%)	31.26%	35.86%	16.39%	44.86%
Shock 6bii (Run on ST Dep 30%)	27.61%	31.93%	12.49%	42.56%
Shock 6biii (Run on ST Dep 50%)	19.03%	22.44%	3.50%	37.33%
Shock 6biv (Run on ST Dep 100%)	-15.11%	0.00%	-19.10%	0.00%
Shock 6ci (Run on LT Dep 20%)	28.34%	34.08%	34.08%	40.68%
Shock 6cii (Run on LT Dep 30%)	22.63%	28.88%	28.88%	35.46%
Shock 6ciii (Run on LT Dep 50%)	7.99%	15.56%	15.56%	21.65%
Shock 6civ (Run on LT Dep 100%)	-74.70%	-58.78%	-58.78%	-68.37%
Shock 6di (10% Run on LT and 20% on ST Dep)	26.03%	30.95%	10.34%	40.37%
Shock 6dii (15% Run on LT and 30% on ST Dep)	18.51%	23.24%	2.12%	34.91%
Shock 6diii (20% Run on LT and 50% on ST Dep)	2.84%	6.32%	-14.32%	24.40%
Shock 6ei (20% Run on largest Deposit)	36.59%	41.58%	22.73%	47.39%
Shock 6eii (50% Run on largest Deposit)	35.10%	40.17%	21.98%	44.88%

Shock 6eiii (100% Run on largest Deposit)	32.44%	37.65%	20.68%	40.10%
Shock 6fi (5% Run on 5 largest Deposits)	37.09%	42.09%	22.86%	48.28%
Shock 6fii (10% Run on 5 largest Deposits)	36.62%	41.68%	22.49%	47.60%
Shock 6fiii (15% Run on largest Deposits)	36.15%	41.26%	22.12%	46.90%
Shock 6fiv (20% Run on 5 largest Deposits)	35.67%	40.84%	21.74%	46.18%
Shock 6gi (5% Run on 10 largest Deposits)	31.93%	37.53%	16.12%	44.05%
Shock 6gii (10% Run on 10 largest Deposits)	25.20%	31.63%	7.56%	38.12%
Shock 6giii (15% Run on 10 largest Deposits)	17.00%	24.50%	-2.95%	30.78%
Shock 6hi (5% Run on 20 largest Deposits)	30.95%	36.82%	14.87%	42.79%
Shock 6hii (10% Run on 20 largest Deposits)	22.80%	29.92%	4.46%	34.93%
Shock 6hiii (15% Run on 20 largest Deposits)	12.46%	21.32%	-8.84%	24.58%
Impact of FX Trading Shocks on ROA				
Initial ROA	**6.17**	**6.01**	**6.04**	**6.96**
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	6.15	5.99	6.02	6.92
Shock 7aii (20% decline in FX trading Income)	6.12	5.96	5.99	6.89

Shock 7aii (20% decline in FX trading Income)	6.12	5.96	5.99	6.89
Shock 7aiii (50% decline in FX trading Income)	6.04	5.88	5.93	6.78
Shock 7aiv (100% decline in FX trading Income)	5.91	5.75	5.82	6.61
Impact of FX Trading Shocks on ROE				
Initial ROE	**376.95**	**617.13**	**391.66**	**174.70**
FX Trading Income Volatility				
Shock 7ai (10% decline in FX trading Income)	375.36	614.48	390.23	173.82
Shock 7aii (20% decline in FX trading Income)	373.76	611.84	388.81	172.95
Shock 7aiii (50% decline in FX trading Income)	368.98	603.90	384.54	170.32
Shock 7aiv (100% decline in FX trading Income)	361.01	590.67	377.42	165.93